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CORNING INC /NY
Form 10-Q/A
May 09, 2006

FORM 10-Q/A

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2005

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-3247

CORNING INCORPORATED

(Registrant)

New York 16-0393470

(State of incorporation) (I.R.S. Employer Identification No.)

One Riverfront Plaza, Corning, New York 14831

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 607-974-9000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to the filing requirements for the past 90 days.

Yes No _____

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No _____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

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1,557,553,059 shares of Corning's Common Stock, \$0.50 Par Value, were outstanding as of May 3, 2006.

Explanatory Note

On April 25, 2006, Corning Incorporated (Corning) filed a Current Report on Form 8-K with the Securities and Exchange Commission in which it announced that it was restating its previously issued consolidated financial statements to correct errors in its accounting for Corning's asbestos settlement liability and the accounting for its investment in Pittsburgh Corning Europe from March 31, 2003, through December 31, 2005. Corning also changed the classification of accretion on a portion of the asbestos settlement liability from interest expense to asbestos settlement expense in its statement of operations for the same time period. Corning is filing this Amendment No. 1 on Form 10-Q/A to amend its Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (the Original Filing), which was originally filed on July 29, 2005.

As more fully described in Note 2 (Restatement of Previously Issued Financial Statements) to the consolidated financial statements in this Form 10-Q/A, the cumulative effect of these adjustments to Corning's June 30, 2005 balance sheet was to increase its investments in affiliate companies by \$27 million, increase other accrued liabilities by \$147 million, increase accumulated deficit by \$122 million, and increase accumulated other comprehensive income by \$2 million. The cumulative effect of these adjustments to Corning's December 31, 2004 balance sheet was to increase investments in affiliate companies by \$26 million, increase other accrued liabilities by \$141 million, increase accumulated deficit by \$123 million, and increase accumulated other comprehensive income by \$8 million.

The restatement adjustments had the following impact on Corning's reported net income and earnings per share as follows (in millions, except per share amounts):

	Three months ended June 30,		Six mo
	2005	2004	2005
	-----	-----	-----
As reported:			
Net income	\$ 165	\$ 108	\$ 4
Basic earnings per share	\$ 0.11	\$ 0.08	\$ 0.
Diluted earnings per share	\$ 0.11	\$ 0.07	\$ 0.
As restated:			
Net income	\$ 165	\$ 109	\$ 4
Basic earnings per share	\$ 0.11	\$ 0.08	\$ 0.
Diluted earnings per share	\$ 0.11	\$ 0.07	\$ 0.
Increase in net income		\$ 1	\$

As a result of the restatement, the Company's previously issued consolidated financial statements for the period from March 31, 2003, through December 31, 2005, including those contained in the following filings, should no longer be relied upon: Annual Report on Form 10-K for the fiscal year ended December 31,

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2005; Quarterly Reports on Form 10-Q for the quarters ended September 30, 2005, June 30, 2005 and March 31, 2005.

Refer to Note 2 (Restatement of Previously Issued Financial Statements) to the consolidated financial statements in this Form 10-Q/A for additional information.

In connection with the restatement, Corning concluded that certain material weaknesses existed in its internal control over financial reporting. See Part I - Item 4 "Controls and Procedures."

This Form 10-Q/A amends and restates only certain information in Items 1, 2, and 4 of Part I and Items 1 and 6 of Part II of the Original Filing. In addition, Item 6 of Part II of the Original Filing has been amended to include updated certifications executed as of the date of this Form 10-Q/A from our Chief Executive Officer and Chief Financial Officer as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 and an updated Computation of Ratio of Earnings to Fixed Charges. The certifications of the Chief Executive Officer and Chief Financial Officer and our Computation of Ratio of Earnings to Fixed Charges are attached to this Form 10-Q/A as exhibits 12, 31.1, 31.2, and 32.

Except for the amended and restated information, this Form 10-Q/A includes all of the information contained in the Original Filing, and no attempt has been made in this Form 10-Q/A to modify or update the disclosures presented in the Original Filing, except as required to reflect the effects of the restatement. This Form 10-Q/A continues to describe conditions as of the date of the Original Filing, and the disclosures contained herein have not been updated to reflect events, results, or developments that occurred after the Original Filing, or to modify or update those disclosures affected by subsequent events. Forward looking statements made in the Original Filing have not been revised to reflect events, results or developments that have become known to us after the date of the Original Filing (other than the restatement), and such forward looking statements should be read in their historical context.

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CORNING INCORPORATED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited; in millions, except per share amounts)

	Three months ended June 30,		
	2005 (Restated)	2004 (Restated)	(Re
Net sales	\$ 1,141	\$ 971	\$
Cost of sales	658	625	
	483	346	
Gross margin			
Operating expenses:			
Selling, general and administrative expenses	191	166	
Research, development and engineering expenses	104	85	
Amortization of purchased intangibles	3	9	
Restructuring, impairment and other charges and (credits) (Note 3)	(1)	(34)	
Asbestos settlement (Note 4)	143	52	
	43	68	
Operating income			

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Interest income	13	4	
Interest expense	(26)	(35)	
Loss on repurchases and retirement of debt, net (Note 5)	(12)	(9)	
Other income, net	20	5	
	-----	-----	-----
Income (loss) before income taxes	38	33	
Provision for income taxes (Note 6)	(44)	(23)	
	-----	-----	-----
(Loss) income before minority interests and equity earnings	(6)	10	
Minority interests	(5)	(11)	
Equity in earnings of associated companies	176	110	
	-----	-----	-----
Net income	\$ 165	\$ 109	\$
	=====	=====	=====
Basic earnings per common share (Note 7)	\$ 0.11	\$ 0.08	\$
	=====	=====	=====
Diluted earnings per common share (Note 7)	\$ 0.11	\$ 0.07	\$
	=====	=====	=====
Shares used in computing per share amounts for (Note 7):			
Basic earnings per common share	1,438	1,383	
	=====	=====	=====
Diluted earnings per common share	1,517	1,495	
	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(Unaudited; in millions, except share and per share amounts)

		June 30, 2005 (Restated)

Assets		
Current assets:		
Cash and cash equivalents		\$ 1,383
Short-term investments, at fair value		8

Total cash, cash equivalents and short-term investments		2,191
Trade accounts receivable, net of doubtful accounts and allowances - \$27 and \$30		6
Inventories (Note 8)		5
Deferred income taxes (Note 6)		
Other current assets		2

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Total current assets	3,6
Investments (Note 9)	1,5
Property, net of accumulated depreciation - \$3,515 and \$3,532	4,2
Goodwill and other intangible assets, net (Note 10)	3
Deferred income taxes (Note 6)	4
Other assets	1

Total Assets	\$ 10,4
	=====
Liabilities and Shareholders' Equity	
Current liabilities:	
Short-term borrowings, including current portion of long-term debt (Note 5)	\$ 2
Accounts payable	6
Other accrued liabilities (Notes 4 and 11)	1,3

Total current liabilities	2,2
Long-term debt (Note 5)	1,9
Postretirement benefits other than pensions	5
Other liabilities (Notes 4 and 11)	8

Total liabilities	5,6

Commitments and contingencies (Note 4)	
Minority interests	
Shareholders' equity:	
Preferred stock - Par value \$100.00 per share; Shares authorized: 10 million	
Series C mandatory convertible preferred stock - Shares issued: 5.75 million;	
Shares outstanding: 616 thousand and 637 thousand	
Common stock - Par value \$0.50 per share; Shares authorized: 3.8 billion;	
Shares issued: 1,487 million and 1,424 million	7
Additional paid-in capital	11,0
Accumulated deficit	(7,0
Treasury stock, at cost; Shares held: 16 million	(1
Accumulated other comprehensive income (Note 13)	

Total shareholders' equity	4,7

Total Liabilities and Shareholders' Equity	\$ 10,4
	=====

The accompanying notes are an integral part of these consolidated financial statements.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; in millions)

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	2005 (Restate)

Cash Flows from Operating Activities:	
Net income	\$ 415
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	246
Amortization of purchased intangibles	8
Restructuring, impairment and other charges and (credits)	18
Asbestos settlement	131
Loss on repurchases and retirement of debt, net	12
Undistributed earnings of associated companies	(133)
Minority interests, net of dividends paid	6
Deferred taxes	7
Restructuring payments	(16)
Customer deposits, net	232
Changes in certain working capital items:	
Trade accounts receivable	(89)
Inventories	(39)
Other current assets	(40)
Accounts payable and other current liabilities, net of restructuring payments	(129)
Other, net	56

Net cash provided by operating activities	685

Cash Flows from Investing Activities:	
Capital expenditures	(698)
Net proceeds from sale or disposal of assets	17
Short-term investments - acquisitions	(703)
Short-term investments - liquidations	762
Other, net	10

Net cash used in investing activities	(612)

Cash Flows from Financing Activities:	
Repayments of short-term borrowings and current portion of long-term debt	(195)
Proceeds from issuance of long-term debt, net	147
Repayments of long-term debt	(102)
Proceeds from issuance of common stock, net	344
Proceeds from exercise of stock options	59
Other, net	(6)

Net cash provided by financing activities	247

Effect of exchange rates on cash	(28)

Net increase (decrease) in cash and cash equivalents	292
Cash and cash equivalents at beginning of period	1,009

Cash and cash equivalents at end of period	\$ 1,301
	=====

The accompanying notes are an integral part of these consolidated financial statements.

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CORNING INCORPORATED AND SUBSIDIARY COMPANIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation

General

In these notes, the terms "Corning," "Company," "we," "us," or "our" mean Corning Incorporated and subsidiary companies.

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been omitted or condensed. These interim consolidated financial statements should be read in conjunction with Corning's consolidated financial statements and notes thereto included in its Annual Report on Form 10-K for the year ended December 31, 2004 (2004 Form 10-K). Except as disclosed herein, there has been no material change in the information disclosed in the notes to the consolidated financial statements included in the 2004 Form 10-K.

The unaudited consolidated financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results of operations, financial position and cash flows for the interim periods presented. All such adjustments are of a normal recurring nature. The results for interim periods are not necessarily indicative of results which may be expected for any other interim period or for the full year.

Certain amounts for 2004 were reclassified to conform with 2005 classifications. Additionally, we have reclassified the 2004 interim results to conform to the 2004 year-end classification of auction rate securities as short-term investments instead of cash equivalents. These reclassifications had no impact on results of operations or shareholders' equity.

Foreign Currency Translation and Transactions

Effective January 1, 2005, our Taiwan subsidiary changed its functional currency from the new Taiwan dollar (its local currency) to the Japanese yen due to the increased significance of Japanese yen based transactions of that subsidiary. As a result of this change in functional currency, exchange rate gains and losses are recognized on transactions in currencies other than the Japanese yen and included in income for the period in which the exchange rates changed.

Derivative Instruments

In the second quarter of 2005, Corning began using derivative instruments (forwards) to limit the exposure to foreign currency fluctuations associated with certain monetary assets and liabilities. These derivative instruments are not designated as hedging instruments for accounting purposes and, as such, are referred to as undesignated hedges. Changes in the fair values of undesignated hedges are recorded in current period earnings in the other income, net component, along with the foreign currency gains and losses arising from the underlying monetary assets or liabilities, in the consolidated statement of operations. At June 30, 2005, the notional amount of the undesignated

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derivatives was \$283 million.

Stock-Based Compensation

We apply Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" (APB 25), for our stock-based compensation plans. The following table illustrates the effect on income and earnings per share if we had applied the fair value recognition provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), to stock-based employee compensation.

(In millions, except per share amounts)

	Three months ended June 30,	
	2005 (Restated)	2004 (Restated)
Net income - as reported	\$ 165	\$ 109
Add: Stock-based employee compensation expense determined under APB 25, included in reported net income, net of tax	9	1
Less: Stock-based employee compensation expense determined under fair value based method, net of tax	(22)	(28)
Net income - pro forma	\$ 152	\$ 82
Earnings per common share:		
Basic - as reported	\$ 0.11	\$ 0.08
Basic - pro forma	\$ 0.11	\$ 0.06
Diluted - as reported	\$ 0.11	\$ 0.07
Diluted - pro forma	\$ 0.10	\$ 0.05

For purposes of SFAS 123 fair value disclosures, each option grant's fair value is estimated on the grant date using the Black-Scholes option-pricing model. The following are weighted-average assumptions used for grants under our stock plans:

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Expected life in years	4	4	4	4
Risk free interest rate	3.8%	3.7%	3.7%	3.3%
Expected volatility	40%	50%	45%	50%

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Changes in the status of outstanding options follow:

	Number of Shares (in thousands)	Weighted-Average Exercise Price
Options outstanding December 31, 2004	139,023	\$ 20.43
Options granted under plans	7,476	\$ 12.62
Options exercised	(9,460)	\$ 6.69
Options terminated	(2,106)	\$ 35.81

Options outstanding June 30, 2005	134,933	\$ 20.72
	=====	
Options exercisable June 30, 2005	106,148	\$ 24.09

New Accounting Standards

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS 123(R)), which replaces SFAS 123 and supercedes APB 25. SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements at fair value. On April 14, 2005, the SEC issued a new rule that amends the required adoption dates of SFAS 123(R). Under SFAS 123(R), Corning must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost, and the transition method to be used at date of adoption. We will implement the provisions of SFAS 123(R) on January 1, 2006 following the "prospective adoption" transition method. This adoption method requires Corning to begin expensing share-based payments effective January 1, 2006. Prior periods will not be restated.

Corning grants restricted shares and stock options that are subject to specific vesting conditions (e.g., three-year cliff vesting). The awards specify that the employee will continue to vest in the award after retirement without providing any additional service. Corning accounts for this type of arrangement by recognizing compensation cost over the nominal vesting period (i.e., over the three-year vesting period) and, if the employee retires before the end of the vesting period, recognizing any remaining unrecognized compensation cost at the date of retirement (the "nominal vesting period approach").

SFAS 123(R) specifies that an award is vested when the employee's retention of the award is no longer contingent on providing subsequent service (the "non-substantive vesting period approach"). That would be the case for Corning awards that vest when employees retire and are granted to retirement eligible employees. Accordingly, related compensation cost must be recognized immediately for awards granted to retirement eligible employees or over the period from the grant date to the date retirement eligibility is achieved, if that is expected to occur during the nominal vesting period.

We will continue to follow the nominal vesting period approach for (1) any new share-based awards granted prior to adopting SFAS 123(R) and (2) the remaining portion of unvested outstanding awards after adopting SFAS 123(R). Upon adoption of SFAS 123(R), we will apply the non-substantive vesting period approach to new grants that have retirement eligibility provisions. Had we applied the non-substantive vesting period approach versus the nominal vesting period

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approach, stock-based compensation cost would have been \$7 million and \$3 million higher for the six months ended June 30, 2005 and 2004, respectively, to stock options and restricted share awards.

In summary, we are currently evaluating the impact that SFAS 123(R) will have on our consolidated results of operations and financial condition. Our current estimate is that our incremental pretax and after-tax share-based compensation expense will be up to \$90 million in 2006 and beyond. This amount includes approximately \$20 million related to the impact of applying the non-substantive vesting period approach.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143" (FIN 47), which clarifies the term "conditional asset retirement obligation" used in SFAS No. 143, "Accounting for Asset Retirement Obligations," and specifically when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. Corning is required to adopt FIN 47 no later than December 31, 2005. Corning does not expect the adoption of FIN 47 to have a material impact on its consolidated results of operations and financial condition.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" (SFAS 154), which replaces APB Opinion No. 20, "Accounting Changes," (APB 20) and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Upon the adoption of SFAS 154 beginning January 1, 2006, Corning will apply the standard's guidance to changes in accounting methods as required. At this time, Corning does not expect the adoption of SFAS 154 will have a material impact on its consolidated results of operations and financial condition.

2. Restatement of Previously Issued Financial Statements

The Company's management and its audit committee concluded, on April 21, 2006, that we would restate previously issued consolidated financial statements for each of the three years ended December 31, 2005, to correct for errors in the accounting for the asbestos settlement liability and for our investment in Pittsburgh Corning Europe N.V. (PCE) from March 31, 2003, through December 31, 2005. We also changed the classification of accretion on a portion of the liability from interest expense to asbestos settlement expense in our consolidated statements of operations for the same time period.

On March 28, 2003, we announced that we had reached agreement with the representatives of asbestos claimants for the settlement of all current and future asbestos claims against Corning and Pittsburgh Corning Corporation (PCC), which might arise from PCC products or operations. The proposed settlement, if the plan is approved and becomes effective, will require Corning to relinquish our equity interest in PCC, contribute our equity interest in PCE, and contribute 25 million shares of Corning common stock. We also agreed to make cash payments with a value of \$131 million, in March 2003, over six years from the effective date of the settlement and to assign insurance policy proceeds from our primary insurance and a portion of our excess insurance at the time of the settlement.

Between March 31, 2003, and December 31, 2005, the following accounting errors occurred:

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- .. Corning's asbestos settlement charges and the related liability for the asbestos settlement did not reflect the estimated fair value at initial recognition or subsequent changes in fair value, of certain components of the proposed settlement offer. As a result, asbestos settlement charges for the years 2005, 2004, and 2003 were understated by \$13 million, \$24 million, and \$117 million, respectively.
- .. Corning incorrectly suspended recording equity earnings of PCE between March 31, 2003, and December 31, 2005. As a result, equity in earnings of associated companies for the years 2005, 2004, and 2003 was understated by \$13 million, \$11 million, and \$7 million, respectively.
- .. Accretion on the cash portion of the asbestos settlement offer was incorrectly recorded as interest expense resulting in both an overstatement of interest expense and an understatement of asbestos settlement expense for the years 2005, 2004, and 2003, by \$8 million, \$8 million, and \$5 million, respectively.

In the restated financial statements, the higher asbestos settlement charges have been tax-effected in 2003 and the first half of 2004. As Corning provided a valuation allowance on most of its deferred tax assets in the third quarter of 2004, that quarter reflects an increase in the valuation allowance of \$55 million for the deferred tax assets related to the higher asbestos settlement charges.

The cumulative effect of these adjustments to Corning's balance sheet as of June 30, 2005, resulted in an increase in investments in affiliate companies of \$27 million, an increase to other accrued liabilities of \$147 million, an increase to accumulated deficit of \$122 million, and an increase to accumulated other comprehensive income of \$2 million.

The cumulative effect of these adjustments to Corning's balance sheet as of December 31, 2004, resulted in an increase in investments in affiliate companies of \$26 million, an increase to other accrued liabilities of \$141 million, an increase to accumulated deficit of \$123 million, and an increase to accumulated other comprehensive income of \$8 million.

The impacts of the restatement adjustments on Corning's financial statements are as follows:

Consolidated Statements of Operations
Summary of Restatement Impacts
(Unaudited; in millions, except per share amounts)

		For t
	Previously Reported	
Operating expenses:		
Asbestos settlement	\$ 137	
Operating income (loss)	49	
Interest expense	28	

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Income (loss) from before income taxes	42
Provision for income taxes	(44)

Loss before minority interests and equity earnings	(2)
Equity in earnings of associated companies, net of impairments	172
Net income	\$ 165
Basic earnings per common share	\$ 0.11
Diluted earnings per common share	\$ 0.11

		For t

	Previously Reported	-----
Operating expenses:		
Asbestos settlement	\$ 47	
Operating loss	73	
Interest expense	37	
Income (loss) before income taxes	36	
(Provision) benefit for income taxes	(24)	

Income (loss) before minority interests and equity earnings	12	
Equity in earnings of associated companies, net of impairments	107	
Net income	\$ 108	
Basic earnings per common share	\$ 0.08	
Diluted earnings per common share	\$ 0.07	

		For

	Previously Reported	-----
Operating expenses:		
Asbestos settlement	\$ 121	
Operating income (loss)	188	

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Interest expense		65
Income (loss) from before income taxes		145
Provision for income taxes		(63)

Income (loss) before minority interests and equity earnings		82
Equity in earnings of associated companies, net of impairments		338
Net income	\$	414
Basic earnings per common share	\$	0.29
Diluted earnings per common share	\$	0.28

			For

		Previously Reported	

Operating expenses:			
Asbestos settlement	\$	66	
Operating income (loss)		66	
Interest expense		73	
Loss before income taxes		(28)	
(Provision) benefit for income taxes		(12)	

Loss before minority interests and equity earnings		(40)	
Equity in earnings of associated companies, net of impairments		214	
Net income	\$	163	
Basic earnings per common share	\$	0.12	
Diluted earnings per common share	\$	0.11	

Consolidated Balance Sheets
Summary of Restatement Impacts
(Unaudited; in millions)

Previously
Reported

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Investments	\$ 1,546
Total Assets	\$ 10,397
Other accrued liabilities	\$ 1,214
Total current liabilities	\$ 2,111
Total liabilities	\$ 5,506
Accumulated deficit	\$ (6,895)
Accumulated other comprehensive income	\$ 68
Total shareholders' equity	\$ 4,863
Total Liabilities and Shareholders' Equity	\$ 10,397

	As
	Previously Reported
Investments	\$ 1,484
Total Assets	\$ 9,744
Other accrued liabilities	\$ 1,178
Total current liabilities	\$ 2,338
Total liabilities	\$ 5,899
Accumulated deficit	\$ (7,309)
Accumulated other comprehensive income	\$ 148
Total shareholders' equity	\$ 3,816
Total Liabilities and Shareholders' Equity	\$ 9,744

Consolidated Statements of Cash Flows
Summary of Restatement Impacts
(Unaudited; in millions)

	For
	Previously Reported
Cash Flows from Operating Activities:	
Net income	\$ 414
Adjustments to reconcile loss from continuing operations to net	

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cash (used in) provided by operating activities:	
Asbestos settlement charge	121
Undistributed earnings of associated companies	(126)
Other, net	60
Net cash provided by operating activities	\$ 685

	For
	Previously Reported
Cash Flows from Operating Activities:	
Net income	\$ 163
Adjustments to reconcile loss from continuing operations to net cash (used in) provided by operating activities:	
Asbestos settlement charge	66
Undistributed earnings of associated companies	(92)
Deferred taxes	(35)
Other, net	34
Net cash provided by operating activities	\$ 307

3. Restructuring, Impairment and Other Charges and (Credits)

2005 Actions

Second Quarter

In the second quarter of 2005, we recorded net credits of \$1 million included in restructuring, impairment and other charges and (credits). A summary of these credits and charges follows:

- .. We recorded net credits of \$7 million, primarily for adjustments to prior years' restructuring and impairment reserves.
- .. We recorded an additional impairment charge of \$6 million for an other than temporary decline in the fair value of our investment in Avanex Corporation (Avanex) below its adjusted cost basis. Our investment in Avanex is accounted for as an available-for-sale security under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." At June 30, 2005, shares of Avanex stock were trading at \$0.90 per share compared to our adjusted cost basis of \$1.30 per share (after recording for the first quarter of 2005 impairment charge discussed below). We intend to sell our shares of Avanex and, subject to restrictions and the trading volume in Avanex stock, we expect to complete this activity in early 2006. As we do not expect the market value of the Avanex shares to recover in this timeframe, the additional impairment in the second quarter was required.

First Quarter

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In the first quarter of 2005, we recorded a \$19 million impairment charge for an other than temporary decline in the fair value of our investment in Avanex.

The following table illustrates the charges, credits and balances of the restructuring reserves as of and for the six months ended June 30, 2005 (in millions):

	January 1, 2005	Six Months ended June 30, 2005 charge	Revisions to existing plans	Net charge (reversals)
Restructuring:				
Employee related costs	\$ 18			
Other charges	77		\$ (13)	\$ (13)
Total restructuring charges	\$ 95		(13)	(13)
Impairment of assets:				
Impairment of available-for-sale securities		\$ 25		
Assets to be disposed of by sale or abandonment			6	
Total impairment charges		25	6	
Total restructuring, impairment and other charges and (credits)		\$ 25	\$ (7)	\$ (7)

Cash payments for employee related costs will be substantially complete by the end of 2005, while payments for other charges will be substantially complete by the end of 2008.

2004 Actions

Second Quarter

In the second quarter of 2004, we recorded credits of \$34 million included in restructuring, impairment and other charges and (credits). A summary of these credits follows:

- .. We recorded a \$25 million gain related to proceeds in excess of assumed salvage values for assets of Corning Asahi Video Products Company (CAV) that were previously impaired but later sold to a third party in China. CAV was our 51% owned affiliate that manufactured glass panels and funnels for use in conventional televisions and which was shut down in 2003.
- .. We recorded a \$9 million credit related to adjustments to prior years' restructuring reserves.

First Quarter

In the first quarter of 2004, we recorded net charges of \$34 million included in restructuring, impairment and other charges and (credits). A summary of these charges and credits follow:

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- .. We recorded \$39 million of accelerated depreciation and \$1 million of exit costs relating to the final shutdown of our semiconductor materials manufacturing facility in Charleston, South Carolina.
- .. We recorded credits of \$6 million, primarily related to proceeds in excess of assumed salvage values for assets that were previously impaired.

The following table illustrates the charges, credits and balances of the restructuring reserves as of and for the six months ended June 30, 2004 (in millions):

	January 1, 2004	Six months ended June 30, 2004 charge	Revisions to existing plans	Net change (reversals)
Restructuring:				
Employee related costs	\$ 78		\$ (2)	\$
Other charges	108	\$ 1	(5)	
Total restructuring charges	\$ 186	1	(7)	
Impairment of assets:				
Assets to be disposed of by sale or abandonment			(33)	
Other: Accelerated depreciation		39		
Total restructuring, impairment and other charges and (credits)		\$ 40	\$ (40)	

4. Commitments and Contingencies

Asbestos Settlement

On March 28, 2003, we announced that we had reached agreement with the representatives of asbestos claimants for the settlement of all current and future asbestos claims against us and Pittsburgh Corning Corporation (PCC), which might arise from PCC products or operations. The proposed settlement, if the plan is approved and becomes effective, will require Corning to relinquish its equity interest in PCC, contribute its equity interest in Pittsburgh Corning Europe N.V. (PCE), a Belgian corporation, and contribute 25 million shares of Corning common stock. Corning also agreed to make cash payments with a value of \$131 million, in March 2003, over six years from the effective date of the settlement and to assign certain insurance policy proceeds from its primary insurance and a portion of its excess insurance at the time of the settlement.

The PCC Plan received a favorable vote from creditors in March 2004. Hearings to consider objections to the PCC Plan were held in the Bankruptcy Court in May 2004. The parties filed post-hearing briefs and made oral arguments to the Bankruptcy Court in November 2004. The Bankruptcy Court allowed an additional

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round of briefing to address current case law developments and heard additional oral arguments on March 16, 2005. In mid-April 2005, the proponents of the PCC Plan requested that the court rule on the pending objections. If the Bankruptcy Court does not approve the PCC Plan in its current form, changes to the Plan are probable as it is likely that the Court will allow the proponents time to propose amendments. The outcome of these proceedings is uncertain, and confirmation of the current Plan or any amended Plan is subject to a number of contingencies. However, apart from the quarterly mark-to-market adjustment in the value of the 25 million shares of Corning stock, management believes that the likelihood of a material adverse impact to Corning's financial statements is remote.

As discussed in Note 2 (Restatement of Prior Period Financial Statements) we have restated prior period financial statements to correct the accounting related to the asbestos settlement.

In the second quarter of 2005, we recorded asbestos settlement expense of \$143 million, including \$137 million reflecting the increase in the value of Corning's common stock from March 31, 2005 to June 30, 2005, and \$6 million to adjust the estimated fair value of the other components of the proposed asbestos settlement.

In the second quarter of 2004, we recorded asbestos settlement expense of \$52 million, including \$47 million for the increase in the value of Corning's common stock from March 31, 2004 to June 30, 2004, and a \$5 million charge to adjust the estimated fair value of the other components of the proposed asbestos settlement.

For the six months ended June 30, 2005, we recorded asbestos settlement expense of \$131 million, including \$121 million reflecting the increase in the value of Corning's common stock from December 31, 2004 to June 30, 2005, and \$10 million to adjust the estimated fair value of the other components of the proposed asbestos settlement.

For the six months ended June 30, 2004, we recorded asbestos settlement expense of \$74 million, including \$66 million reflecting the increase in the value of Corning's common stock from December 31, 2003 to June 30, 2004, and \$8 million to adjust the estimated fair value of the other components of the proposed asbestos settlement.

Since March 28, 2003, we have recorded total net charges of \$731 million to reflect the initial settlement liability and subsequent adjustments for the change in the fair value of the components of the liability.

The fair value of the liability expected to be settled by contribution of our investment in PCE, the fair value of 25 million shares of our common stock and assigned insurance proceeds (in aggregate totaling \$583 million at June 30, 2005) is recorded in other accrued liabilities in our consolidated balance sheets. As the timing of this obligation's settlement will depend on future judicial rulings (i.e., controlled by a third party and not Corning), this portion of the PCC liability is considered a "due on demand" obligation. Accordingly, this portion of the obligation has been classified as a current liability, even though it is possible that the contribution could be made beyond one year. The remaining portion of the settlement liability (totaling \$148 million at June 30, 2005), representing the net present value of the cash payments, is recorded in the other liabilities component in our consolidated balance sheets.

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Other Commitments and Contingencies

We provide financial guarantees and incur contingent liabilities in the form of stand-by letters of credit and performance bonds. These guarantees have various terms, and none of these guarantees are individually significant. We have also agreed to provide a credit facility to Dow Corning Corporation (Dow Corning) as discussed in Note 9 to the consolidated financial statements in our 2004 Form 10-K. The funding of the Dow Corning \$150 million credit facility is subject to events connected to the Bankruptcy Plan. As of June 30, 2005, we were contingently liable for the items described above totaling \$361 million, compared with \$368 million at December 31, 2004. We believe a significant majority of these guarantees and contingent liabilities will expire without being funded.

From time to time, we are subject to uncertainties and litigation and are not always able to predict the outcome of these items with assurance. Various legal actions (including the PCC matter discussed previously), claims and proceedings are pending against us, including those arising out of alleged product defects, product warranties, patents, asbestos and environmental matters. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on Corning's consolidated financial position, liquidity or results of operations.

5. Debt

Second Quarter

In the second quarter of 2005, we completed the following debt transactions:

- .. We issued \$100 million of 6.05% senior unsecured notes for net proceeds of approximately \$99 million. The notes mature on June 15, 2015. We may call the debentures at any time on or after June 15, 2010.
- .. We redeemed for cash the \$100 million principal amount of our 7% debentures due March 15, 2007, which at the time had a book value of \$88 million. We recognized a loss of \$12 million upon the early redemption of these debentures.
- .. We redeemed the remaining \$191 million of our outstanding 3.50% convertible debentures. The bondholders elected to convert substantially all of their debentures into Corning common stock at a conversion ratio of 103.3592 shares per \$1,000 debenture. We issued 20 million shares upon the conversion of the debentures, resulting in an increase to equity of \$191 million.

In addition, in the second quarter of 2005, we completed a common stock offering of 20 million shares for net proceeds of approximately \$323 million. The net proceeds from this stock offering are intended to be used primarily to reduce debt by repurchasing for cash the remaining zero coupon convertible debentures due on November 8, 2015. We may call the debentures at any time on or after November 8, 2005. At June 30, 2005, the debentures had a carrying value of \$275 million.

Both the \$100 million of 6.05% debentures and the 20 million shares of common stock were issued under our existing \$5 billion universal shelf registration statement. At June 30, 2005, our remaining capacity under the shelf registration is approximately \$2.1 billion.

First Quarter

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 In the first quarter of 2005, we completed the following debt transactions:

- .. We obtained a loan of approximately \$48 million, bearing interest at 2.1%, from a Japanese bank. This loan is part of a 10-year loan agreement entered into in 2004 to fund certain capital expansion activities in Japan.
- .. We redeemed \$100 million of our outstanding 3.50% convertible debentures. The bondholders affected by this redemption elected to convert \$98 million of their debentures into Corning common stock at a conversion ratio of 103.3592 shares per \$1,000 debenture, with the remaining \$2 million repaid in cash. Separately, bondholders elected to convert approximately \$6 million of outstanding debentures into Corning common stock. In total, we issued 11 million shares upon the conversion of the debentures, resulting in an increase to equity of \$105 million.
- .. We repaid a total of \$192 million of notes in accordance with their stated repayment schedule. This was primarily comprised of our 5.625% Euro notes.

In addition, in the first quarter of 2005, we completed negotiations with a group of banks on a new revolving credit facility. The new facility provides us access to a \$975 million unsecured multi-currency revolving line of credit and expires in March 2010. The facility includes two financial covenants, including a leverage test (debt to capital ratio) and an interest coverage ratio (calculated on the most recent four quarters). Concurrent with the closing of this credit facility, we terminated our previous \$2 billion revolving line of credit that was set to expire in August 2005. As of June 30, 2005, we were in compliance with these covenants.

The following table summarizes the activities related to our debt retirements (both current and long-term) for the six months ended June 30, 2005 and 2004 (in millions):

	Book Value of Debentures Retired	Cash Paid

2005 activity:		
Convertible debentures, 3.5%, due 2008	\$ 297	\$ 2
Other (primarily Euro notes, 5.625%, due 2005)	195	195
Debentures, 7%, due 2007	88	100

Total 2005 activity	\$ 580	\$ 297

2004 activity:		
Convertible debentures, 3.5%, due 2008	\$ 311	\$ 33
Zero coupon convertible debentures, 2%, due 2015	119	117
Other loans payable	9	9

Total 2004 activity	\$ 439	\$ 159

6. Income Taxes

Our provision for income taxes and the related tax rates follow (in millions):

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	Three months ended June 30,		Six months ended June 30,	
	2005 (Restated)	2004 (Restated)	2005 (Restated)	2004 (Restated)
Provision for income taxes	\$ (44)	\$ (23)	\$ (63)	\$ (10)
Effective tax rate	(115.8)%	(69.7)%	(45.3)%	(31.3)%

For the three and six months ended June 30, 2005, the tax provision reflected the impact of maintaining a valuation allowance on the majority of our net deferred tax assets. As a result, U.S. (federal, state and local) and certain foreign income taxes attributable to pretax income or losses were not provided. The most significant item for which a U.S. tax benefit was not provided was the asbestos settlement charge. For the U.S. and certain foreign operations, the income tax provision or benefit attributable to pretax income or losses was recorded as an adjustment to the valuation allowance. The income tax provision for the three and six months ended June 30, 2005 included income taxes for certain foreign operations that were favorably impacted by tax holiday benefits and investment tax credits.

At June 30, 2005, we had net deferred tax assets of \$529 million, which are primarily U.S. net deferred tax assets. We continue to believe it is more likely than not that we could realize these U.S. net deferred tax assets through a tax-planning strategy involving the sale of a non-strategic appreciated asset.

We expect to maintain a valuation allowance on future tax benefits until an appropriate level of profitability, primarily in the U.S. and Germany, is sustained or we are able to develop tax planning strategies that enable us to conclude that it is more likely than not that a larger portion of our deferred tax assets would be realizable. Until then, our tax provision will include only the net tax expense attributable to certain foreign operations and the expense or benefit from current U.S. and certain foreign operations will be recorded as an adjustment to the valuation allowance.

The effective tax rate for the three and six months ended June 30, 2004 is higher than the U.S. statutory income tax rate of 35%. Our effective tax rate was impacted by restructuring, impairment and other charges and (credits), asbestos settlement charges and losses on repurchases and retirement of debt.

7. Earnings Per Common Share

The reconciliation of the amounts used in the basic and diluted earnings per common share computations follow (in millions, except per share amounts):

				Three months ended
				2005 (Restated)
	Net Income	Weighted- Average Shares	Per Share Amount	Ne Inco

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Basic earnings per common share	\$ 165	1,438	\$ 0.11	\$ 1
Effect of dilutive securities:				
Stock compensation awards		38		
7% mandatory convertible preferred stock		32		
3.50% convertible debentures	1	9		

Diluted earnings per common share	\$ 166	1,517	\$ 0.11	\$ 1
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	Six months ended J			
	2005 (Restated)			
	Net Income	Weighted- Average Shares	Per Share Amount	Ne Inco
Basic earnings per common share	\$ 415	1,422	\$ 0.29	\$ 1
Effect of dilutive securities:				
Stock compensation awards		35		
7% mandatory convertible preferred stock		32		
3.50% convertible debentures	3	19		
Diluted earnings per common share	\$ 418	1,508	\$ 0.28	\$ 1

The following potential common shares were excluded from the calculation of diluted earnings per common share due to their anti-dilutive effect or, in the case of stock options, because their exercise price was greater than the average market price for the periods presented (in millions):

	Three months ended June 30,	
	2005	2004
Potential common shares excluded from the calculation of diluted earnings per common share:		
3.5% convertible debentures		
4.875% convertible notes	6	6
Zero coupon convertible debentures	3	3
Total	9	9
Stock options excluded from the calculation of diluted earnings per common share	50	58

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8. Inventories

Inventories comprise the following (in millions):

	June 30, 2005	December 31, 2004
Finished goods	\$ 161	\$ 136
Work in process	157	172
Raw materials and accessories	130	139
Supplies and packing materials	104	88
Total inventories	\$ 552	\$ 535

9. Investments

Investments comprise the following (in millions):

	Ownership Interest	June 2005 (Restated)
Associated companies at equity		
Samsung Corning Precision Glass Co., Ltd.	50%	\$ 6
Dow Corning	50%	4
All other	25%-51% (a)	5
Other investments (b)		1,5
Total		\$ 1,5

(a) Amounts reflect Corning's direct ownership interests in the respective associated companies. Corning does not control any such entities.

(b) Amounts reflect \$12 million and \$53 million at June 30, 2005 and December 31, 2004, respectively, of available-for-sale securities stated at market. During 2005, Corning recorded impairment charges totaling \$25 million for other than temporary declines in the fair value of shares of Avanex below their cost basis. This is in addition to the reversal of previously unrecognized gains on Avanex shares of \$14 million included in accumulated other comprehensive income at December 31, 2004 on the consolidated balance sheet. Refer to Note 3 (Restructuring, Impairment and Other Charges and (Credits)) for additional information.

Summarized results of operations for our two significant investments accounted for by the equity method follow:

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Samsung Corning Precision Glass Co., Ltd. (Samsung Corning Precision)

Samsung Corning Precision is a South Korea-based manufacturer of liquid crystal display glass for flat panel displays. Samsung Corning Precision's results of operations follow (in millions):

	Three months ended June 30,	
	2005	2004
<hr/>		
Statement of Operations:		
Net sales	\$ 383	\$ 264
Gross profit	\$ 278	\$ 205
Net income	\$ 183	\$ 145
Corning's equity in earnings of Samsung Corning Precision	\$ 85	\$ 71
Dividends received from Samsung Corning Precision		
Related Party Transactions:		
Corning sales of inventory to Samsung Corning Precision		
Corning purchases from Samsung Corning Precision	\$ 3	\$ 15
Corning transfers of machinery & equipment to Samsung Corning Precision at cost (a)	\$ 26	\$ 9

(a) Corning purchases machinery and equipment on behalf of Samsung Corning Precision to support its capital expansion initiatives. The machinery and equipment is transferred to Samsung Corning Precision at our cost basis, resulting in no revenue or gain being recognized on the transaction.

Balances due to and from Samsung Corning Precision were immaterial at June 30, 2005 and December 31, 2004.

Dow Corning

Dow Corning is a U.S. based manufacturer of silicone products. Dow Corning's results of operations follow (in millions):

	Three months ended June 30,	
	2005	2004
<hr/>		
Statement of Operations:		
Net sales	\$ 1,007	\$ 852
Gross profit	\$ 357	\$ 278
Net income	\$ 154	\$ 36
Corning's equity in earnings of Dow Corning (a)	\$ 77	\$ 17
Dividends received from Dow Corning	\$ 15	

(a) Corning's equity in earnings of Dow Corning includes the following:

- . During the second quarter of 2005, Dow Corning recorded a gain on the issuance of subsidiary stock. Our equity earnings included \$11 million related to this gain.
- . During the second quarter of 2004, Dow Corning recorded charges

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related to restructuring actions and adjustments to interest liabilities recorded on its emergence from bankruptcy. Our equity earnings included \$21 million related to these charges.

10. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the six months ended June 30, 2005 follow (in millions):

	Telecom- munications	Display Technologies	Oth
Balance at January 1, 2005	\$ 123	\$ 9	\$
Foreign currency translation & other	(5)		
Balance at June 30, 2005	\$ 118	\$ 9	\$

(1) This balance relates to our Specialty Materials operating segment.

Other intangible assets follow (in millions):

	June 30, 2005			
	Gross	Accumulated Amortization	Net	Gros
Amortized intangible assets:				
Patents and trademarks	\$ 144	\$ 83	\$ 61	\$ 1
Non-competition agreements				1
Other	4	1	3	
Total amortized intangible assets	148	84	64	2
Unamortized intangible assets:				
Intangible pension assets	42		42	
Total	\$ 190	\$ 84	\$ 106	\$ 3

Amortized intangible assets are primarily related to the Telecommunications segment.

Estimated amortization expense related to these intangible assets is \$13 million in 2006, \$12 million in 2007, \$11 million in 2008, and insignificant thereafter.

11. Customer Deposits

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In 2005 and 2004, Corning and several customers entered into long-term purchase and supply agreements in which the Display Technologies segment will supply large-size glass substrates to the customers over periods of up to six years. As part of the agreements, these customers have agreed to make advance cash deposits to Corning for a portion of the contracted glass to be purchased. During the current year, we received a total of \$323 million of deposits against orders, of which \$234 million was received in the first half of 2005. Upon receipt of the cash deposits made by customers, we record a customer deposit liability, which will be applied in the form of credits against future product purchases over the life of the agreements. As product is shipped to a customer, Corning will recognize revenue at the selling price and issue credit memoranda for an agreed amount of the customer deposit liability. The credit memoranda will be applied against customer receivables resulting from the sale of product, thus reducing operating cash flows in later periods as credits are applied for cash deposits received in earlier periods.

Customer deposits will be received in the following periods (in millions):

	2004	Six months ended June 30, 2005	Remainder of 2005
Customer deposits received	\$ 204	\$ 234	\$ 248

The majority of customer deposits will be received through 2006. For the three and six months ended June 30, 2005, we issued \$2 million in credit memoranda, not reflected in the above amounts, which were applied against customer receivables.

We had total customer deposit liabilities of \$431 million and \$215 million at June 30, 2005 and December 31, 2004, respectively, of which \$114 million and \$18 million were recorded in the current liabilities - other accrued liabilities component of our consolidated balance sheets.

In the event customers do not make all customer deposit installment payments or elect not to purchase the agreed upon quantities of product, subject to specific conditions outlined in the agreements, we may retain certain amounts of the customer deposits. If we do not deliver agreed upon product quantities, subject to specific conditions outlined in the agreements, we may be required to return certain amounts of customer deposits.

12. Employee Retirement Plans

Defined Benefit Plans

The following table summarizes the components of net periodic benefit cost for our defined benefit pension and postretirement health care and life insurance plans (in millions):

	Pension benefits
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	Three months ended June 30,		Six months ended June 30,		Three ended
	2005	2004	2005	2004	2005
Service cost	\$ 14	\$ 9	\$ 30	\$ 20	\$ 3
Interest cost	40	28	85	66	9
Expected return on plan assets	(50)	(32)	(102)	(75)	
Amortization of net loss	7	5	18	11	2
Amortization of prior service cost	4	2	4	4	
Total expense	\$ 15	\$ 12	\$ 35	\$ 26	\$ 14

In the second half of 2005, we will contribute up to 10 million shares of Corning common stock to our domestic pension plan. We do not anticipate any significant contributions to our international pension plans.

Corning and certain of its domestic subsidiaries also offer postretirement plans that provide health care and life insurance benefits for retirees and eligible dependents. Certain employees may become eligible for such postretirement benefits upon reaching retirement age. Prior to January 1, 2003, our principal retiree medical plans required retiree contributions each year equal to the excess of medical cost increases over general inflation rates. In response to rising health care costs, in 2002, Corning placed a "cap" on the amount it would contribute toward the cost of its retiree medical plans for salaried and union-free hourly employees. The Medicare Part D subsidy gives Corning the opportunity to restructure the cap so that it takes effect at a later date. The restructured cap is a way for Corning to share the Medicare Part D subsidy with retirees and beneficiaries. The existing cap trigger is 150% of Corning's 2001 retiree medical costs. Effective July 1, 2005, we amended these plans and restructured the cap to be 120% of Corning's expected 2005 retiree medical costs. This amendment to the plans will increase 2005 periodic expense by \$6 million.

13. Comprehensive Income

Components of comprehensive income, on an after-tax basis where applicable, follow (in millions):

	Three months ended June 30,	
	2005 (Restated)	2004 (Restated)
Net income	\$ 165	\$ 109
Other comprehensive income:		
Change in unrealized gain (loss) on investments, net		
Reclassification adjustment relating to investments included in net income, net		
Change in unrealized gain on derivative		

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instruments, net	12	9
Reclassification adjustment relating to derivatives, net	(2)	(2)
Foreign currency translation adjustment, net (a)	(83)	(17)
Change in minimum pension liability	1	5

Total comprehensive income	\$ 93	\$ 104

(a) The initial implementation of our Taiwan subsidiary's change in its functional currency from the new Taiwan dollar to the Japanese yen effective January 1, 2005 had the effect of increasing the U.S. dollar value of its net assets and increasing accumulated other comprehensive income by \$23 million. The impact of this change is included in the foreign currency translation adjustment, net amount.

14. Operating Segments

Our reportable operating segments follow:

- .. Display Technologies - manufactures liquid crystal display glass for flat panel displays;
- .. Telecommunications - manufactures optical fiber and cable, and hardware and equipment components for the telecommunications industry;
- .. Environmental Technologies - manufactures ceramic substrates and filters for automobile and diesel applications; and
- .. Life Sciences - manufactures glass and plastic consumables for scientific applications.

All other operating segments that do not meet the quantitative threshold for separate reporting (e.g., Specialty Materials, Ophthalmic and Conventional Video Components), certain corporate investments (e.g., Dow Corning and Steuben Glass), discontinued operations, and unallocated expenses (including other corporate items) have been grouped as "Unallocated and Other." Unallocated expenses include the following: gains or losses on repurchases and retirement of debt; charges related to the asbestos litigation; restructuring, impairment and other charges and (credits) related to the corporate research and development or staff organizations; and charges for increases in our tax valuation allowance. Unallocated and Other also represents the reconciliation between the totals for the reportable segments and our consolidated operating results.

Operating Segments (in millions)	Display Technologies	Telecom- munications	Environmental Technologies	Li Scie

Three months ended June 30, 2005 (Restated)				
Net sales	\$ 415	\$ 415	\$ 146	\$
Research, development and engineering expenses (1)	\$ 27	\$ 22	\$ 29	\$
Restructuring, impairment and other charges and (credits)		\$ 8		
Interest expense (2)	\$ 12	\$ 8	\$ 4	\$
(Provision) benefit for income taxes	\$ (47)	\$ 1	\$ 2	\$
Income (loss) before minority interests and equity earnings (3)	\$ 156	\$ (13)	\$ (4)	\$

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Minority interests (4)				
Equity in earnings of associated companies	87			
Net income (loss)	\$ 243	\$ (13)	\$ (4)	\$

Three months ended June 30, 2004 (Restated)				
Net sales	\$ 277	\$ 392	\$ 141	\$
Research, development and engineering expenses (1)	\$ 19	\$ 23	\$ 21	\$
Restructuring, impairment and other charges and (credits)		\$ (1)		
Interest expense (2)	\$ 11	\$ 16	\$ 5	\$
(Provision) benefit for income taxes	\$ (32)	\$ 11	\$ (2)	\$
Income (loss) before minority interests and equity earnings (3)	\$ 64	\$ (21)	\$ 4	\$
Minority interests (4)				
Equity in earnings of associated companies	71			
Net income (loss)	\$ 135	\$ (21)	\$ 4	\$

Six months ended June 30, 2005 (Restated)				
Net sales	\$ 735	\$ 842	\$ 294	\$
Research, development and engineering expenses (1)	\$ 52	\$ 44	\$ 55	\$
Restructuring, impairment and other charges and (credits)		\$ 8		
Interest expense (2)	\$ 28	\$ 19	\$ 10	\$
(Provision) benefit for income taxes	\$ (64)	\$ (1)	\$ 2	\$
Income (loss) before minority interests and equity earnings (3)	\$ 236	\$ (4)	\$ (6)	\$
Minority interests (4)				
Equity in earnings of associated companies	168			
Net income (loss)	\$ 404	\$ (4)	\$ (6)	\$

Six months ended June 30, 2004 (Restated)				
Net sales	\$ 507	\$ 704	\$ 282	\$
Research, development and engineering expenses (1)	\$ 35	\$ 48	\$ 41	\$
Restructuring, impairment and other charges and (credits)		\$ (5)		
Interest expense (2)	\$ 22	\$ 32	\$ 10	\$
(Provision) benefit for income taxes	\$ (58)	\$ 34	\$ (5)	\$
Income (loss) before minority interests and equity earnings (3)	\$ 117	\$ (68)	\$ 10	\$
Minority interests (4)		1		
Equity in earnings of associated companies	136	3		
Net income (loss)	\$ 253	\$ (64)	\$ 10	\$

- (1) Non-direct research, development and engineering expenses are allocated based upon direct project spending for each segment.
- (2) Interest expense is allocated to segments based on a percentage of segment net operating assets. Consolidated subsidiaries with independent capital structures do not receive additional allocations of interest expense.
- (3) Many of Corning's administrative and staff functions are performed on a centralized basis. Where practicable, Corning charges these expenses to

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segments based upon the extent to which each business uses a centralized function. Other staff functions, such as corporate finance, human resources and legal are allocated to segments, primarily as a percentage of sales.

- (4) For the three and six months ended June 30, 2005, minority interests include gains of \$4 million for adjustments to prior years' restructuring and impairment reserves associated with CAV. For the three and six months ended June 30, 2004, minority interests include gains of \$13 and \$14, respectively, from the sale of CAV assets in excess of assumed salvage value.

A reconciliation of reportable segment net income to consolidated net income follows (in millions):

	Three months ended June 30,		
	2005 (Restated)	2004 (Restated)	
Net income of reportable segments	\$ 222	\$ 123	\$
Non-reportable operating segments net income (1)	13	19	
Unallocated amounts:			
Non-segment loss and other (2)	1	(2)	
Non-segment restructuring, impairment and other (charges) and credits (3)	(6)	4	
Asbestos settlement	(143)	(52)	
Interest income	13	4	
Loss on repurchases of debt	(12)	(9)	
Provision (benefit) for income taxes (4)	(4)	2	
Equity in earnings of associated companies (5)	81	20	
Net income	\$ 165	\$ 109	\$

- (1) Non-reportable operating segments net income includes the results of non-reportable operating segments.
- (2) Non-segment loss and other includes the results of non-segment operations and other corporate activities.
- (3) For the three and six months ended June 30, 2005, non-segment restructuring, impairment and other (charges) and credits includes impairment charges for the other than temporary decline in the market value of Avanex shares. Refer to Note 3 (Restructuring, Impairment and Other Charges and (Credits))
- (4) Benefit for income taxes includes taxes associated with non-segment restructuring, impairment and other (charges) and credits.
- (5) Equity in earnings of associated companies includes amounts derived from Dow Corning.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS

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OF OPERATIONS

OVERVIEW

Our key priorities for 2005 remain unchanged from the previous year: protect our financial health, improve our profitability, and invest in the future. During the second quarter of 2005, we made the following progress against these priorities:

Financial Health

Our balance sheet remains strong, and we continue to generate positive cash flows from operating activities. Significant activities during the second quarter of 2005 follow:

- .. We entered into an additional multi-year customer supply agreement in the Display Technologies segment. During the second quarter of 2005, we received \$214 million in deposits against orders under all such contracts.
- .. We reduced long-term debt by calling \$191 million of convertible debt, which then converted into Corning common stock. Additionally, we refinanced \$100 million of debt to reduce interest expense and extend the duration of our debt portfolio.
- .. We completed a common stock offering of 20 million shares for net proceeds of approximately \$323 million. The net proceeds from this stock offering are intended to be used primarily to reduce debt by redeeming for cash the remaining zero coupon convertible debentures due on November 8, 2015.
- .. The debt and common stock transactions listed above resulted in an improvement to our debt to capital ratio, which declined to 31%.
- .. We ended the second quarter of 2005 with \$2.1 billion in cash, cash equivalents and short-term investments. This represents an increase of approximately \$200 million from December 31, 2004, primarily due to the proceeds from the common stock offering and cash provided by operating activities more than offsetting the net debt repayments and capital spending.

We have a financial objective to reduce our outstanding debt below \$2 billion by the end of 2005. Upon the anticipated fourth quarter 2005 repurchase of our zero coupon convertible debentures, we expect to meet this objective. Additionally, in April 2005 our public debt ratings were raised to BBB- by both Fitch Ratings and Standard & Poor's.

Profitability

For the three months ended June 30, 2005, we generated net income of \$165 million or \$0.11 per share. This represents an improvement of \$56 million over the same period in 2004. This improvement in net income was primarily driven by the following:

- .. Growth in our Display Technologies segment, which continued to experience strong market demand for liquid crystal display (LCD) glass substrates. For the second quarter of 2005, net income for the Display Technologies segment, including equity earnings from Samsung Corning Precision Glass Co., Ltd. (Samsung Corning Precision), a South Korea-based manufacturer of LCD glass substrates, increased \$108 million, or 80%.
- .. Strong equity earnings from Dow Corning Corporation (Dow Corning), a U.S. based manufacturer of silicone products, which increased \$60 million over the amount recognized in the second quarter of 2004. The second quarter of 2005 equity earnings from Dow Corning included a one-time gain of \$11 million compared to a one-time loss of \$21 million in the second quarter of 2004.
- .. The above items were partially offset by the second quarter pretax and after-tax charge of \$143 million for the asbestos settlement, primarily including \$137 million to mark-to-market the shares of common stock that

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will be contributed to the Pittsburgh Corning Corporation (PCC) asbestos settlement agreement if the PCC Plan of Reorganization receives judicial approval.

For the six months ended June 30, 2005, we generated net income of \$415 million or \$0.28 per share. This represents an improvement of \$250 million over the same period in 2004. This improvement in net income was largely the result of the same factors identified for the three month period.

Investing in our Future

We continue to invest in a wide array of technologies, with our focus being LCD glass substrates, diesel filters and substrates in response to tightening emissions control standards, and optical fiber and cable and hardware and equipment to enable fiber-to-the-premises.

Our research, development and engineering expenses have increased in both the three and six month periods ended June 30, 2005 compared to their respective 2004 periods, but have remained relatively constant as a percentage of net sales. We believe our current spending levels are adequate to enable us to execute our growth strategies.

Our capital expenditures are primarily focused on expanding manufacturing capacity for LCD glass substrates in the Display Technologies segment and diesel products in the Environmental Technologies segment. Total capital expenditures for the three and six month periods ended June 30, 2005 were \$375 million and \$698 million, respectively. Of these amounts, \$308 million and \$591 million, respectively, were directed toward our Display Technologies segment, and \$40 million and \$74 million, respectively, were directed toward our Environmental Technologies segment.

Restatement of Prior Period Financial Statements

The Company's management and its audit committee concluded, on April 21, 2006, that the Company would restate previously issued consolidated financial statements to properly account for the asbestos settlement charges and liability and for its investment in and equity earnings of Pittsburgh Corning Europe (PCE) from March 31, 2003, through December 31, 2005. The Company also changed the classification of accretion on a portion of the liability to be paid in cash from interest expense to asbestos settlement charge for the same time period.

The cumulative effect of these adjustments to Corning's balance sheet as of June 30, 2005, resulted in an increase in investments in affiliate companies of \$27 million, an increase to other liabilities of \$147 million, an increase to accumulated deficit of \$122 million, and an increase to accumulated other comprehensive income of \$2 million.

The cumulative effect of these adjustments to Corning's balance sheet as of December 31, 2004, resulted in an increase in investments in affiliate companies of \$26 million, an increase to other liabilities of \$141 million, an increase to accumulated deficit of \$123 million, and an increase to accumulated other comprehensive income of \$8 million.

To correct these errors, the Company has restated its consolidated financial statements and, on May 9, 2006, filed an amended Annual Report on Form 10-K/A for the fiscal year ended December 31, 2005. In addition, on May 9, 2006, the company filed amended reports on Form 10-Q/A for the quarters ended March 31, 2005, June 30, 2005, and September 31, 2005, to restate the financial periods provided for those quarterly periods.

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All information in this document reflects the impact of the restatement described in Note 2 (Restatement of Prior Period Financial Statements) to the consolidated financial statements

RESULTS OF OPERATIONS

Selected highlights for the second quarter follow (dollars in millions):

	Three months ended June 30,		% Change 05 vs. 04	(Re
	2005 (Restated)	2004 (Restated)		
Net sales	\$ 1,141	\$ 971	18%	\$
Gross margin (gross margin %)	\$ 483 42%	\$ 346 36%	40%	\$
Selling, general and administrative expenses (as a % of net sales)	\$ 191 17%	\$ 166 17%	15%	\$
Research, development and engineering expenses (as a % of net sales)	\$ 104 9%	\$ 85 9%	22%	\$
Restructuring, impairment and other charges and (credits) (as a % of net sales)	\$ (1)	\$ (34) (4)%	(97)%	\$
Asbestos Settlement (as a % of net sales)	\$ 143 13%	\$ 52 5%	175%	\$
Income (loss) before income taxes (as a % of net sales)	\$ 38 3%	\$ 33 3%	15%	\$
Provision for income taxes (as a % of net sales)	\$ (44) (4)%	\$ (23) (2)%	91%	\$
Equity in earnings of associated companies (as a % of net sales)	\$ 176 15%	\$ 110 11%	60%	\$
Net income (as a % of net sales)	\$ 165 14%	\$ 109 11%	51%	\$

Net Sales

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For the three and six months ended June 30, 2005, the net sales increase compared to the respective 2004 periods was the result of continued strong demand for LCD glass substrates in our Display Technologies segment and demand for products in our Telecommunications segment to support fiber-to-the-premises projects. The performance in all other segments of the company was comparable to the respective prior year periods. Movements in foreign exchange rates, primarily the Japanese yen and Euro, did not significantly impact the comparison of net sales between 2005 and 2004.

Gross Margin

As a percentage of net sales, gross margin improved 6 percentage points for the three and six months ended June 30, 2005, compared to the respective prior year periods. The improvement in overall dollars and as a percentage of net sales was primarily driven by increased volume in our Display Technologies and Telecommunications segments.

Selling, General and Administrative Expenses

For the three and six months ended June 30, 2005, the increase in selling, general and administrative expenses compared to the respective 2004 periods is primarily driven by increases in compensation costs. As a percentage of net sales, selling, general and administrative expenses have remained comparable to the respective prior year periods.

Research, Development and Engineering Expenses

Research, development and engineering expenses have increased in both the three and six month periods ended June 30, 2005 compared to their respective 2004 periods, but have remained constant as a percentage of net sales. Our expenditures are focused on our Environmental Technologies, Display Technologies and Telecommunications segments as we strive to capitalize on the current market opportunities in those segments.

Restructuring, Impairment and Other Charges and (Credits)

For the three and six months ended June 30, 2005, the charges recorded were primarily for impairment charges for an other than temporary decline in the fair value of our investment in Avanex Corporation (Avanex) below its cost basis. Our investment in Avanex is accounted for as an available-for-sale security under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." We intend to sell our shares of Avanex and, subject to restrictions and the trading volume in Avanex stock, we expect to complete this activity in early 2006. As we do not expect the market value of the Avanex shares to recover in this timeframe, the impairments in the first and second quarters of 2005 were required.

The credit for the three months ended June 30, 2004 was primarily due to a gain related to proceeds in excess of assumed salvage values for assets of Corning Asahi Video Products Company (CAV) that were previously impaired but later sold to a third party in China. The net charge for the three months ended June 30, 2004 included the second quarter credit associated with the sale of CAV assets offset by the first quarter of 2004 charge associated with the final shutdown of our semiconductor manufacturing facility in Charleston, South Carolina.

Refer to Note 3 (Restructuring, Impairment and Other Charges and (Credits)) to the consolidated financial statements for additional information.

Asbestos Settlement

The asbestos settlement activity relates to changes in the estimated fair value of certain items to be contributed by Corning under the Pittsburgh Corning Corporation (PCC) asbestos settlement agreement if the PCC Plan of Reorganization receives judicial approval. For additional information on this matter, refer to Note 4 (Commitments and Contingencies) to the consolidated financial statements and Part II - Other Information, Item 1. Legal Proceedings.

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Income (Loss) Before Income Taxes

In addition to the key drivers outlined above, the following had a material effect on the results of our income (loss) before income taxes:

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Loss on repurchases and retirement of debt, net	\$ (12)	\$ (9)	\$ (12)	\$ (32)

Also, the comparability of income (loss) before income taxes for the three and six months ended June 30, 2005 and 2004 was impacted by movements in foreign exchange rates. In the second quarter of 2005, we incurred an exchange rate gain of \$12 million compared to a loss of \$1 million in the second quarter of 2004. For the six months ended June 30, 2005, we incurred a net exchange rate loss of \$14 million compared to less than \$1 million for the prior year period. In the first quarter of 2005, we incurred an exchange rate loss of \$26 million. This exchange rate loss was due to the impact of currency movements on unhedged balance sheet exposures, most notably at our Taiwan subsidiary which changed its functional currency from the new Taiwan dollar (its local currency) to the Japanese yen in the first quarter of 2005. Refer to Note 1 (Basis of Presentation) to the consolidated financial statements for additional information.

Provision for Income Taxes

Our provision for income taxes and the related effective tax rates follow (in millions):

	Three months ended June 30,		Six months ended June 30,	
	2005 (Restated)	2004 (Restated)	2005 (Restated)	2004 (Restated)
Provision for income taxes	\$ (44)	\$ (23)	\$ (63)	\$ (10)
Effective tax rate	(115.8)%	(69.7)%	(45.3)%	(31.3)%

For the three and six months ended June 30, 2005, the tax provision reflected the impact of maintaining a valuation allowance on the majority of our net deferred tax assets. As a result, U.S. (federal, state and local) and certain foreign income taxes attributable to pretax income or losses were not provided. The most significant item for which a U.S. tax benefit was not provided was the asbestos settlement charge. Such items increased our effective tax rate from 23% to 116% and from 21% to 45% for the three and six months ended June 30, 2005, respectively. For the U.S. and certain foreign operations, the income tax provision or benefit attributable to pretax income or losses was recorded as an adjustment to the valuation allowance. The income tax provision for the three and six months ended June 30, 2005 included income taxes for certain foreign

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operations that were favorably impacted by tax holiday benefits and investment tax credits.

At June 30, 2005, we had net deferred tax assets of \$529 million, which are primarily U.S. net deferred tax assets. We continue to believe it is more likely than not that we could realize these U.S. net deferred tax assets through a tax-planning strategy involving the sale of a non-strategic appreciated asset.

We expect to maintain a valuation allowance on future tax benefits until an appropriate level of profitability, primarily in the U.S. and Germany, is sustained or we are able to develop tax planning strategies that enable us to conclude that it is more likely than not that a larger portion of our deferred tax assets would be realizable. Until then, our tax provision will include only the net tax expense attributable to certain foreign operations and the expense or benefit from current U.S. and certain foreign operations will be recorded as an adjustment to the valuation allowance.

The effective tax rate for the three and six months ended June 30, 2004 is higher than the U.S. statutory income tax rate of 35%. Our effective tax rate was impacted by restructuring, impairment and other charges and (credits), asbestos settlement charges and loss on repurchases and retirement of debt.

Equity in Earnings of Associated Companies

The following provides a summary of equity in earnings of associated companies (in millions):

	Three months ended June 30,		Six months ended June 30,	
	2005 (Restated)	2004 (Restated)	2005 (Restated)	2004 (Restated)
Samsung Corning Precision	\$ 85	\$ 71	\$ 165	\$ 136
Dow Corning	77	17	145	41
All other	14	22	35	41
Total equity earnings	\$ 176	\$ 110	\$ 345	\$ 218

The improvement in equity earnings recognized from Samsung Corning Precision for both the three and six months ended June 30, 2005 compared to their respective 2004 periods is explained in the discussion of the performance of our Display Technologies segment.

The improvement in equity earnings recognized from Dow Corning for the three and six months ended June 30, 2005 compared to their respective 2004 periods is largely attributable to the following:

- .. Strong sales volumes and improved pricing for Dow Corning in 2005.
- .. During the second quarter of 2005, Dow Corning recorded a gain on the issuance of subsidiary stock. Our equity earnings included \$11 million related to this gain.
- .. During the second quarter of 2004, Dow Corning recorded charges related to restructuring actions and adjustments to interest liabilities recorded on its emergence from bankruptcy. Our equity earnings included \$21 million related to these charges.

Refer to Note 9 (Investments) to the consolidated financial statements for

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additional information relating to Samsung Corning Precision and Dow Corning's operating results.

As the conventional television market will be negatively impacted by strong growth in the LCD glass market, it is reasonably possible that Samsung Corning Co., Ltd. (our 50% equity method investment that makes glass panels and funnels for conventional televisions) may incur additional restructuring or impairment charges or net operating losses in the future.

Net Income

As a result of the above, our net income and per share data follow (in millions, except per share amounts):

	Three months ended June 30,	
	2005 (Restated)	2004 (Restated)
Net income	\$ 165	\$ 109
Basic earnings per common share	\$ 0.11	\$ 0.08
Diluted earnings per common share	\$ 0.11	\$ 0.07
Shares used in computing per share amounts for:		
Basic earnings per common share	1,438	1,383
Diluted earnings per common share	1,517	1,495

OPERATING SEGMENTS

Our reportable operating segments follow:

- .. Display Technologies - manufactures LCD glass for flat panel displays;
- .. Telecommunications - manufactures optical fiber and cable, and hardware and equipment components for the telecommunications industry;
- .. Environmental Technologies - manufactures ceramic substrates and filters for automobile and diesel applications; and
- .. Life Sciences - manufactures glass and plastic consumables for scientific applications.

All other operating segments that do not meet the quantitative threshold for separate reporting (e.g., Specialty Materials, Ophthalmic and Conventional Video Components), certain corporate investments (e.g., Dow Corning and Steuben Glass), discontinued operations, and unallocated expenses (including other corporate items) have been grouped as "Unallocated and Other." Unallocated expenses include the following: gains or losses on repurchases and retirement of debt; charges related to the asbestos litigation; restructuring, impairment and other charges and (credits) related to the corporate research and development or staff organizations; and charges for increases in our tax valuation allowance. Unallocated and Other also represents the reconciliation between the totals for the reportable segments and our consolidated operating results.

Display Technologies

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The following table provides net sales and other data for the Display Technologies segment (in millions):

	Three months ended June 30,		% Change 05 vs. 04	20
	2005	2004		
Net sales	\$ 415	\$ 277	50%	\$
Income before equity earnings	\$ 156	\$ 64	144%	\$
Equity earnings of associated companies	\$ 87	\$ 71	23%	\$
Net income	\$ 243	\$ 135	80%	\$

The net sales increase for the second quarter of 2005 is largely reflective of the overall LCD market growth. During the second quarter of 2005, glass substrate volumes (measured in square feet of glass sold) increased approximately 47%. Weighted average selling prices increased modestly compared to 2004. Included in this weighted average were selling price declines that were more than offset by increases in the market demand for large-size glass substrates (generation 5 and above), which carry a higher selling price per square foot. For the second quarter of 2005, large-size glass substrates accounted for 67% of total sales volumes, compared to 46% for the second quarter of 2004. The sales of the Display Technologies segment are denominated in Japanese yen and, as such, our revenues are susceptible to movements in the U.S. dollar - Japanese yen exchange rate. Sales growth benefited by approximately 3% from a weakening of the U.S. dollar compared to 2004.

For the six months ended June 30, 2005, the net sales increase is largely driven by the same factors as those identified for the second quarter of 2005. For the comparable six month periods, glass substrate volumes increased approximately 42%, while weighted average selling prices increased modestly. Sales of large-size glass substrates accounted for 63% of year to date 2005 sales volumes compared to 41% for the same period in 2004. Movements in the U.S. dollar - Japanese yen exchange rate benefited sales by approximately 3% for the comparable six month periods.

For the three and six months ended June 30, 2005, the increase in income before equity earnings was primarily the result of higher volumes and ongoing improvements in manufacturing efficiencies. For the three and six months ended June 30, 2005, income before equity earnings includes approximately \$10 million of exchange gains and \$5 million of exchange losses, respectively, related to foreign currency denominated transactions. The impact of these losses on the comparability of results was largely offset by a lower effective tax rate in 2005 than in 2004.

The increases in our equity earnings from Samsung Corning Precision for the periods presented were largely driven by the same market factors identified for our wholly-owned business. During the second quarter of 2005, Samsung Corning Precision recorded a number of non-recurring charges and earnings were negatively impacted by approximately 8% from movements in exchange rates. As a result, the year over year increase in equity earnings was less than the sales volume growth of 55% would have indicated. Equity earnings from Samsung Corning Precision denominated in Korean won are susceptible to movements in the exchange rate between the Korean won and the U.S. dollar.

The Display Technologies segment has and will continue to have a concentrated customer base comprised of LCD panel makers primarily located in Japan and Taiwan. The most significant customers in these markets are AU Optronics Corp., Chi Mei Optoelectronics Corp., Hannstar Display Corp., Quanta Display Inc.,

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Sharp Corporation, and Toppan CFI (Taiwan) Co., Ltd. These customers accounted for 71% and 74% of the Display Technologies segment sales for the three and six months ended June 30, 2005, respectively. In addition, Samsung Corning Precision's sales also continue to be concentrated. For the three and six months ended June 30, 2005, sales to LCD panel makers located in Korea (Samsung Electronics Co., Ltd., LG Philips LCD Co., and BOE Hydis Technology Co., Ltd.) accounted for 89% and 87% of total Samsung Corning Precision sales, respectively.

We expect the LCD market to continue to grow rapidly. We anticipate higher demand for LCD televisions, for which our customers require large-size glass substrates. During 2005 and 2004, Corning held discussions with several of its customers to discuss how to meet this demand. As part of its discussions, Corning has sought improved payment terms, including deposits against orders, to provide a greater degree of assurance that we are effectively building capacity to meet the needs of a rapidly growing industry.

In 2005 and 2004, Corning and several customers entered into long-term purchase and supply agreements in which the Display Technologies segment will supply large-size glass substrates to the customers over periods of up to six years. As part of the agreements, these customers have agreed to make advance cash deposits to Corning for a portion of the contracted glass to be purchased. We now have customer deposit agreements with five customers of the Display Technologies segment.

In the event the customers do not make all customer deposit installment payments or elect not to purchase the agreed upon quantities of product, subject to specific conditions outlined in the agreements, Corning may retain certain amounts of the customer deposits. If Corning does not deliver agreed upon product quantities, subject to specific conditions outlined in the agreements, Corning may be required to return certain amounts of the customer deposits.

Outlook:

We expect to see a continuation of the overall industry growth and the trend toward large-size substrates. We anticipate adding capacity to meet volume growth in the LCD market, which is anticipated to be more than 50% in 2005. This market growth is expected to occur at varying rates in the principal LCD markets of Japan, Taiwan, China and Korea. Sales of our wholly-owned business are primarily to panel manufacturers in Japan, Taiwan, and China with customers in Korea being serviced by Samsung Corning Precision. The actual growth rates in these markets will impact our sales and earnings performance. For the third quarter of 2005, we expect volumes for our wholly-owned business and Samsung Corning Precision may grow between 10% and 20%, both individually and in the aggregate, compared to the second quarter of 2005. Pricing in the third quarter is expected to be flat to down slightly. We also expect continued strong manufacturing performance. However, in the third quarter of 2005 we will begin production at our new Taichung, Taiwan manufacturing facility. The ramp of production and our ability to efficiently start up operations may impact profitability in the second half of 2005. There can be no assurance that the end-market rates of growth will continue at the high rates experienced in recent quarters, that we will be able to pace our capacity expansions to actual demand, or that the rate of cost declines will offset price declines in any given period. While the industry has grown rapidly, consumer preferences for panels of differing sizes, or price or other factors, may lead to pauses in market growth, and it is possible that glass manufacturing capacity may exceed demand from time to time. In addition, changes in foreign exchange rates, principally the

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Japanese yen, will continue to impact the profitability of this segment.

Telecommunications

The following table provides net sales and other data for the Telecommunications segment (in millions):

	Three months ended June 30,		% Change 05 vs. 04	---
	2005	2004		

Net sales:				
Optical fiber and cable	\$ 213	\$ 192	11%	\$
Hardware and equipment	202	200	1%	
	-----	-----		-----
Total net sales	\$ 415	\$ 392	6%	\$
	=====	=====		=====
Net loss	\$ (13)	\$ (21)	(38)%	\$

For the second quarter of 2005, fiber volumes increased 15% while prices declined 5% compared to the second quarter of 2004. The 2005 increase in fiber volumes was largely driven by sales in North America and Europe, offset by lower volumes in China. The stronger North America volumes were primarily due to increased sales to Verizon Communications Inc. (Verizon) to support their fiber-to-the-premises project. Sales to Verizon also accounted for the majority of the increase in hardware and equipment product sales. The lower volume in China was due to continued weakness in the market as the result of over capacity and pricing pressure. Based on these ongoing market conditions, we have been unable to regain the market share we lost prior to the successful resolution of the 2004 anti-dumping preliminary determination. The comparison of sales of the Telecommunications segment between the second quarter of 2005 and 2004 was negatively affected by the 2004 sale of our frequency controls business. During the second quarter of 2004, the frequency controls business recorded sales of \$24 million. Excluding the impact of this divestiture, net sales for the Telecommunications segment increased 13% for the second quarter of 2005 compared to the year ago period. Movements in foreign exchange rates, primarily the Euro and Japanese yen, did not have a significant impact on sales for the second quarter of 2005 compared to the second quarter of 2004.

For the six months ended June 30, 2005, the net sales increase is largely driven by the same factors as those identified for the second quarter of 2005. Excluding the cumulative impact of the divestiture of our frequency controls business, net sales for the Telecommunications segment increased 28% for the six months ended June 30, 2005 compared to the prior year period. For the comparable six month periods, fiber volumes increased 31% and prices declined 6%. Movements in exchange rates did not significantly impact sales for the comparable six month periods.

For the three and six months ended June 30, 2005, the net loss recognized in the Telecommunications segment represented significant reductions from the losses incurred in the comparable 2004 periods. The reduced losses were primarily

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driven by operational efficiencies from increases in sales volumes. Movements in exchange rates did not significantly impact net loss for the comparable periods.

The Telecommunications segment continues to have a concentrated customer base. For the three and six months ended June 30, 2005, 10 customers accounted for 51% and 53% of total segment net sales, respectively. For the same periods, Verizon accounted for 14% and 17% of total segment net sales, respectively.

Outlook:

 For the third quarter of 2005, we expect net sales to be comparable to those of the second quarter. We expect fiber volumes to be flat to down 5% compared to those of the second quarter and pricing declines of less than 5%. Segment net sales continue to be impacted by Verizon's fiber-to-the-premises project. Third quarter sales volumes of fiber-to-the-premises products should be approximately flat with the second quarter. Fiber-to-the-premises sales to Verizon in the third and fourth quarters are dependent on Verizon's planned targets for homes passed and connected in 2006. Changes in the expected Verizon deployment plan, or additional reductions in their inventory levels of fiber-to-the-premises products, could also affect the sales level. For China, we do not anticipate any significant recovery of volumes during the third quarter.

Environmental Technologies

The following table provides net sales and other data for the Environmental Technologies segment (in millions):

	Three months ended June 30,		% Change 05 vs. 04	---
	2005	2004		

Net sales:				
Automotive	\$ 125	\$ 121	3%	\$
Diesel	21	20	5%	
	-----	-----		-----
Total net sales	\$ 146	\$ 141	4%	\$
	=====	=====		=====
Net (loss) income	\$ (4)	\$ 4	(200)%	\$

The increase in net sales for the second quarter of 2005 is primarily the result of demand for our ceramic filters and substrates for automotive and diesel emission control applications. For automotive products, overall volumes were down modestly from 2004, however, sales continue to benefit from a higher mix of our thin-wall and ultra thin-wall substrates, which allow engine manufacturers to meet increasingly tighter emissions control requirements in a more cost effective manner. Strong sales driven by non-U.S. auto manufacturers compensated for weaker demand from U.S. auto manufacturers due to slowdowns in their production. Our diesel products sales growth was driven by demand from retrofit markets, particularly in Asia. During the second quarter of 2005, we received additional letters of intent from diesel engine manufacturers to supply filters for their 2007 model year platforms. We are actively negotiating with several diesel engine manufacturers to develop these letters of intent into supply

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agreements. Negotiations are likely to continue through the next several quarters. A portion of this segment's sales are susceptible to movements in the U.S. dollar-Euro exchange rate. Movements in exchange rates did not have a significant impact on sales for the second quarter of 2005 compared to the second quarter of 2004.

For the six months ended June 30, 2005, the net sales increase is largely driven by the same factors as those identified for the second quarter of 2005.

For the three and six months ended June 30, 2005, the decline in net income compared to the respective 2004 periods is primarily the result of increased development costs and plant start-up costs to support our emerging diesel products. These costs offset the anticipated gross margin benefits of increased volumes and the higher mix of premium automotive products. Movements in exchange rates did not significantly impact net income for the comparable periods.

Outlook:

 For the third quarter of 2005, we expect net sales to be comparable to those of the second quarter. For automotive products, we expect to see stable demand based on anticipated worldwide auto production. We do not anticipate any adverse impact to sales from the recent production slowdowns by U.S. auto manufacturers as continued slowdowns should be offset by increases in the production levels of non-U.S. auto manufacturers. Additionally, we expect a continuation of the shift to premium products, although at slightly slower rates than 2004. Diesel product sales are expected to grow slightly in the third quarter as demand from the retrofit market is anticipated to remain stable. The retrofit market is volatile, and any unanticipated declines in demand could adversely impact sales.

Life Sciences

The following table provides net sales and net (loss) income for the Life Sciences segment (in millions):

	Three months ended June 30,		% Change 05 vs. 04	2004
	2005	2004		
Net sales	\$ 75	\$ 79	(5)%	\$
Net (loss) income	\$ (4)	\$ 5	(180)%	\$

The decrease in net sales for the second quarter of 2005 is primarily due to volume decreases as a result of the change in our distribution channel previously disclosed in our 2004 Annual Report on Form 10-K. Movements in foreign exchange rates, primarily the Euro, did not have a significant impact on the comparability of sales.

For the six months ended June 30, 2005, the net sales decrease is largely driven by the same factors as those identified for the second quarter of 2005.

For the three and six months ended June 30, 2005, the 2005 net loss compared to income in the respective 2004 periods is largely attributable to the gross margin impact from the lower sales volumes. Additionally, the Life Sciences segment incurred higher operating expenses for both the three and six month periods ended June 30, 2005 compared to their respective 2004 periods to implement the change in distribution channels and to support new product

development efforts.

Outlook:

 For the third quarter of 2005, we expect net sales to be comparable to those of the second quarter. We remain encouraged by the results of our efforts to alter our distribution channel in response to one of our 2004 primary distributors changing its business strategy. However, it is unlikely that we will be successful in migrating all of our 2004 sales made through this distributor to our existing primary distributor and other channels, as end user preferences for distribution models, price or other factors may adversely impact sales in the second half of 2005. For the full year, we expect sales may be negatively impacted by approximately 10% as a result of this change in our distribution channel.

LIQUIDITY AND CAPITAL RESOURCES

Customer Deposits

Certain customers of our Display Technologies segment have entered into long-term supply agreements and agreed to make advance cash deposits to secure supply of large-size glass substrates. The deposits will be applied in the form of credits against future product purchases, thus reducing operating cash flows in later periods as credits are applied for cash deposits received in earlier periods. During the current year, we received a total of \$323 million of deposits against orders, of which \$234 million was received in the first half of 2005.

Customer deposits will be received in the following periods (in millions):

	2004	Six months ended June 30, 2005	Remainder of 2005
Customer deposits received	\$ 204	\$ 234	\$ 248

The majority of customer deposits will be received through 2006. For the three and six months ended June 30, 2005, we issued \$2 million in credit memoranda, not reflected in the above amounts, which were applied against customer receivables.

Financing Structure
 Second Quarter

 In the second quarter of 2005, we completed the following debt and common stock transactions:

- .. We issued \$100 million of 6.05% senior unsecured notes for net proceeds of approximately \$99 million. The notes mature on June 15, 2015. We may call the debentures at any time on or after June 15, 2010.
- .. We redeemed for cash the \$100 million principal amount of our 7% debentures due March 15, 2007, which at the time had a book value of \$88 million. We recognized a loss of \$12 million upon the early redemption of these debentures.

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- .. We redeemed the remaining \$191 million of our outstanding 3.50% convertible debentures. The bondholders elected to convert substantially all of their debentures into Corning common stock at a conversion ratio of 103.3592 shares per \$1,000 debenture. We issued 20 million shares upon the conversion of the debentures, resulting in an increase to equity of \$191 million.
- .. We completed a common stock offering of 20 million shares for net proceeds of approximately \$323 million. The net proceeds from this stock offering are intended to be used primarily to reduce debt by repurchasing for cash the remaining zero coupon convertible debentures due on November 8, 2015. We may call the debentures at any time on or after November 8, 2005. At June 30, 2005, the debentures had a carrying value of \$275 million.

Both the \$100 million of 6.05% debentures and the 20 million shares of common stock were issued under our existing \$5 billion universal shelf registration statement. At June 30, 2005, our remaining capacity under the shelf registration is approximately \$2.1 billion.

In the second half of 2005, we will contribute up to 10 million shares of Corning common stock to our domestic pension plan.

First Quarter

In the first quarter of 2005, we completed the following debt transactions:

- .. We obtained a loan of approximately \$48 million, bearing interest at 2.1%, from a Japanese bank. This loan is part of a 10-year loan agreement entered into in 2004 to fund certain capital expansion activities in Japan.
- .. We redeemed \$100 million of our outstanding 3.50% convertible debentures. The bondholders affected by this redemption elected to convert \$98 million of their debentures into Corning common stock at a conversion ratio of 103.3592 shares per \$1,000 debenture, with the remaining \$2 million repaid in cash. Separately, bondholders elected to convert approximately \$6 million of outstanding debentures into Corning common stock. In total, we issued 11 million shares upon the conversion of the debentures, resulting in an increase to equity of \$105 million.
- .. We repaid a total of \$192 million of notes in accordance with their stated repayment schedule. This was primarily comprised of our 5.625% Euro notes.

In addition, in the first quarter of 2005 we completed negotiations with a group of banks on a new revolving credit facility. The new facility provides us access to a \$975 million unsecured multi-currency revolving line of credit and expires in March 2010. The facility includes two financial covenants, a leverage test (debt to capital ratio not greater than 50%) and an interest coverage ratio of no less than 3.5 times (calculated on the most recent four quarters). Concurrent with the closing of this credit facility, we terminated our previous \$2 billion revolving line of credit that was set to expire in August 2005. As of and for the period ended June 30, 2005, our interest coverage ratio was 10.3 times, and our debt to capital ratio was 31%.

Capital Spending

Capital spending totaled \$698 million and \$302 million during the six months ended June 30, 2005 and 2004. Our 2005 forecasted consolidated capital spending has increased to about \$1.5 billion. Of this amount, approximately \$1.2 billion will be directed toward expanding manufacturing capacity for LCD glass substrates in the Display Technologies segment and approximately \$150 million will be directed toward our Environmental Technologies segment.

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Key Balance Sheet Data

Balance sheet and working capital measures are provided in the following table (dollars in millions):

	As of June 30, ----- 2005 (Restated)	As of December 31, ----- 2004 (Restated)
Working capital	\$ 1,370	\$ 804
Working capital, excluding cash and short-term investments	\$ (745)	\$ (1,077)
Current ratio	1.6:1	1.3:1
Trade accounts receivable, net of allowances	\$ 645	\$ 585
Days sales outstanding	51	52
Inventories	\$ 552	\$ 535
Inventory turns	4.8	4.9
Days payable outstanding	86	67
Long-term debt	\$ 1,915	\$ 2,214
Total debt to total capital	32%	42%

Credit Rating

Our credit ratings were updated from those disclosed in our 2004 Annual Report on Form 10-K as follows:

RATING AGENCY Last Update	Rating Long-Term Debt	Outlook Last Update
Fitch April 27, 2005	BBB-	Stable April 27, 2005
Standard & Poor's April 27, 2005	BBB-	Stable April 27, 2005
Moody's (a) July 29, 2002	Ba2	Positive January 14, 2005

(a) On July 11, 2005, Moody's Investor Service placed Corning's debt rating under review for a possible upgrade.

Management Assessment of Liquidity

Our major source of funding for 2005 and beyond will be our existing balance of cash, cash equivalents and short-term investments. Beyond our first quarter and second quarter 2005 debt and equity offerings, from time to time, we may also issue debt or equity securities for general corporate purposes. We believe we have sufficient liquidity for the next several years to fund operations, the asbestos settlement, research and development, capital expenditures and scheduled debt repayments.

Contractual Obligations

Other than the early debt repayments described in Note 5 (Debt) to the consolidated financial statements, there have been no material changes outside the ordinary course of business in the contractual obligations disclosed in our

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2004 Annual Report on Form 10-K under the caption "Contractual Obligations."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported therein. The estimates that required management's most difficult, subjective or complex judgments are described in our 2004 Annual Report on Form 10-K and remain unchanged through the second quarter of 2005.

NEW ACCOUNTING STANDARDS

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS 123(R)), which replaces SFAS 123 and supercedes APB 25. SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements at fair value. On April 14, 2005, the SEC issued a new rule that amends the required adoption dates of SFAS 123(R). Under SFAS 123(R), Corning must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost, and the transition method to be used at date of adoption. We will implement the provisions of SFAS 123(R) on January 1, 2006 following the "prospective adoption" transition method. This adoption method requires Corning to begin expensing share-based payments effective January 1, 2006. Prior periods will not be restated.

Corning grants restricted shares and stock options that are subject to specific vesting conditions (e.g., three-year cliff vesting). The awards specify that the employee will continue to vest in the award after retirement without providing any additional service. Corning accounts for this type of arrangement by recognizing compensation cost over the nominal vesting period (i.e., over the three-year vesting period) and, if the employee retires before the end of the vesting period, recognizing any remaining unrecognized compensation cost at the date of retirement (the "nominal vesting period approach").

SFAS 123(R) specifies that an award is vested when the employee's retention of the award is no longer contingent on providing subsequent service (the "non-substantive vesting period approach"). That would be the case for Corning awards that vest when employees retire and are granted to retirement eligible employees. Accordingly, related compensation cost must be recognized immediately for awards granted to retirement eligible employees or over the period from the grant date to the date retirement eligibility is achieved, if that is expected to occur during the nominal vesting period.

We will continue to follow the nominal vesting period approach for (1) any new share-based awards granted prior to adopting SFAS 123(R) and (2) the remaining portion of unvested outstanding awards after adopting SFAS 123(R). Upon adoption of SFAS 123(R), we will apply the non-substantive vesting period approach to new grants that have retirement eligibility provisions. Had we applied the non-substantive vesting period approach versus the nominal vesting period approach, stock-based compensation cost would have been \$7 million and \$3 million higher for the six months ended June 30, 2005 and 2004, respectively, to stock options and restricted share awards.

In summary, we are currently evaluating the impact that SFAS 123(R) will have on our consolidated results of operations and financial condition. Our current estimate is that our incremental pretax and after-tax share-based compensation expense will be up to \$90 million in 2006 and beyond. This amount includes

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approximately \$20 million related to the impact of applying the non-substantive vesting period approach.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143" (FIN 47), which clarifies the term "conditional asset retirement obligation" used in SFAS No. 143, "Accounting for Asset Retirement Obligations," and specifically when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. Corning is required to adopt FIN 47 no later than December 31, 2005. Corning does not expect the adoption of FIN 47 to have a material impact on its consolidated results of operations and financial condition.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" (SFAS 154), which replaces APB Opinion No. 20, "Accounting Changes," (APB 20) and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Upon the adoption of SFAS 154 beginning January 1, 2006, Corning will apply the standard's guidance to changes in accounting methods as required. At this time, Corning does not expect the adoption of SFAS 154 will have a material impact on its consolidated results of operations and financial condition.

ENVIRONMENT

We have been named by the Environmental Protection Agency (the Agency) under the Superfund Act, or by state governments under similar state laws, as a potentially responsible party for 11 active hazardous waste sites. Under the Superfund Act, all parties who may have contributed any waste to a hazardous waste site, identified by such Agency, are jointly and severally liable for the cost of cleanup unless the Agency agrees otherwise. It is our policy to accrue for the estimated liability related to Superfund sites and other environmental liabilities related to property owned and operated by us based on expert analysis and continual monitoring by both internal and external consultants. We have accrued \$13 million for the estimated liability for environmental cleanup and related litigation at June 30, 2005. Based upon the information developed to date, we believe that the accrued amount is a reasonable estimate of our liability and that the risk of an additional loss in an amount materially higher than that accrued is remote.

FORWARD-LOOKING STATEMENTS

Many statements in this Quarterly Report on Form 10-Q/A are forward-looking statements. These typically contain words such as "believes," "expects," "anticipates," "estimates," "forecasts," or similar expressions. These forward-looking statements involve risks and uncertainties that may cause the actual outcome to be materially different. Such risks and uncertainties include, but are not limited to the following:

- global economic and political conditions;
- tariffs, import duties and currency fluctuations;
- product demand and industry capacity;
- competitive products and pricing;
- sufficiency of manufacturing capacity and efficiencies;
- availability and costs of critical components and materials;
- new product development and commercialization;
- order activity and demand from major customers;

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- fluctuations in capital spending by customers;
- possible disruption in commercial activities due to terrorist activity, armed conflict, political instability or major health concerns;
- facility expansions and new plant start-up costs;
- effect of regulatory and legal developments;
- capital resource and cash flow activities;
- ability to pace capital spending to anticipated levels of customer demand, which may fluctuate;
- interest costs;
- credit rating and ability to obtain financing and capital on commercially reasonable terms;
- adequacy and availability of insurance;
- financial risk management;
- capital spending;
- acquisition and divestiture activities;
- rate of technology change;
- level of excess or obsolete inventory;
- ability to enforce patents;
- adverse litigation;
- product and components performance issues;
- stock price fluctuations;
- rate of substitution by end-users purchasing LCDs for notebook computers, desktop monitors and televisions;
- downturn in demand for LCD glass substrates;
- customer ability, most notably in the Display Technologies segment, to maintain profitable operations and obtain financing to fund their manufacturing expansions;
- fluctuations in supply chain inventory levels;
- equity company activities, principally at Dow Corning Corporation and Samsung Corning Co., Ltd.;
- movements in foreign exchange rates, primarily the Japanese yen, Euro and Korean won; and
- other risks detailed in Corning's Securities and Exchange Commission filings.

Risk factors

Set forth below and elsewhere in this Quarterly Report on Form 10-Q/A and in other documents we file with the SEC are some of the principal risks and uncertainties that could cause our actual business results to differ materially from any forward-looking statements or other projections contained in this Report. In addition, future results could be materially affected by general industry and market conditions, changes in laws or accounting rules, general U.S. and non-U.S. economic and political conditions, including a global economic slowdown, fluctuation of interest rates or currency exchange rates, terrorism, political unrest or international conflicts, political instability or major health concerns, natural disasters or other disruptions of expected economic and business conditions. These risk factors should be considered in addition to our cautionary comments concerning forward-looking statements in this Quarterly Report on Form 10-Q/A, including statements related to markets for our products and trends in our business that involve a number of risks and uncertainties. Our separate statement labeled Forward-Looking Statements should be considered in addition to the statements below.

Our sales could be negatively impacted if one or more of our key customers substantially reduce orders for our products

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Our customer base is relatively concentrated with 10 or fewer significant customers accounting for a high percentage (greater than 50%) of net sales in most of our businesses. However, no individual customer accounts for more than 10% of consolidated sales.

Our Display Technologies, Telecommunications, Environmental Technologies, and Life Sciences segments have concentrated customer bases. If we lose a significant customer in any of these businesses, or if one or more significant customers reduce orders, our sales could be negatively impacted. Corning's Display Technologies segment manufactures and sells glass substrates to a concentrated customer base comprised of LCD panel makers primarily located in Japan and Taiwan. The most significant customers in these markets are AU Optronics Corp., Chi Mei Optoelectronics Corp., Hannstar Display Corp., Quanta Display Inc., Sharp Corporation, and Toppan CFI (Taiwan) Co., Ltd. For the six months ended June 30, 2005, these LCD customers accounted for 74% of the Display Technologies segment sales. In addition, Samsung Corning Precision's sales were also concentrated, with three LCD panel makers in Korea (Samsung Electronics Co., Ltd., LG Philips LCD Co., and BOE Hydis Technology Co., Ltd.) accounting for 87% of sales for the six months ended June 30, 2005.

Although the sale of LCD glass substrates has increased from quarter to quarter in 2005, there can be no assurance that this positive trend will continue. Our customers are LCD panel makers, and as they switch to larger size glass, the pace of their orders may be uneven while they adjust their manufacturing processes and facilities. Additionally, consumer preferences for panels of differing sizes, or price or other factors, may lead to pauses in market growth from time to time. There is further risk that our customers may not be able to maintain profitable operations or access sufficient capital to fund ongoing expansions, which may limit their pace of orders to us.

Our Telecommunications segment customers' purchases of our products are affected by their capital expansion plans, general market and economic uncertainty and regulatory changes, including broadband policy. For the six months ended June 30, 2005, one customer accounted for 17% of our Telecommunications segment sales, and 10 customers accounted for 53% of total segment sales. Sales in the Telecommunications segment continue to be impacted by Verizon's fiber-to-the-premises project. Fiber-to-the-premises sales to Verizon are dependent on Verizon's planned targets for homes passed and connected. Changes in Verizon's deployment plan, or additional reductions in their inventory levels of fiber-to-the-premises products, could adversely affect future sales.

In the Environmental Technologies segment, sales of our ceramic substrate and filter products for automotive and diesel emissions and pollution control fluctuate with production and sales of automobiles and other vehicles, as well as changes in governmental laws and regulations for air quality and emission controls. Sales in our Environmental Technologies segment are primarily to four manufacturers of emission control systems who then sell to automotive and diesel engine manufacturers. A portion of our automotive products are sold to U.S. engine manufacturers, and as a result, our future sales could be adversely impacted by slowdowns in automotive production by these manufacturers.

Sales in our Life Sciences segment in 2004 were primarily through two large distributors to government entities, pharmaceutical and biotechnology companies, hospitals, universities and other research facilities. One of Life Sciences primary distributors changed its business strategy, and Corning notified this distributor that it would not renew its existing distribution agreement, which

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expired in April 2005. We are actively working to transition the sales through this distributor to our remaining primary distributor and other existing and developing channels. However, this change will likely adversely impact sales volumes in the short term. For the full year, sales may be adversely impacted by approximately 10% as a result of this change in our distribution channel. For the six months ended June 30, 2005, our remaining primary distributor accounted for 41% of total segment sales.

If we do not successfully adjust our manufacturing volumes and fixed cost structure, or achieve manufacturing yields or sufficient product reliability, our operating results could suffer, and we may not achieve profitability levels anticipated

We are investing heavily in additional manufacturing capacity of certain businesses, including forecasted 2005 capital spending of \$1.1 billion to \$1.2 billion to expand our liquid crystal display glass facilities in response to anticipated increases in customer demand and approximately \$150 million in anticipation of the emerging market for diesel emission control systems. The speed of constructing the new facilities presents challenges. We may face technical and process issues in moving to commercial production capacity. There can be no assurance that Corning will be able to pace its capacity expansion to the actual demand. While the LCD industry has grown rapidly, it is possible that glass manufacturing capacity may exceed customer demand during certain periods.

The manufacturing of our products involves highly complex and precise processes, requiring production in highly controlled and clean environments. Changes in our manufacturing processes or those of our suppliers could significantly reduce our manufacturing yields and product reliability. In some cases, existing manufacturing may be insufficient to achieve the volume or requirements of our customers. We will need to develop new manufacturing processes and techniques to achieve targeted volume, pricing and cost levels that will permit profitable operations. While we continue to fund projects to improve our manufacturing techniques and processes, we may not achieve satisfactory cost levels in our manufacturing activities that will fully satisfy our yield and margin targets.

Our future operating results depend on our ability to purchase a sufficient amount of materials, parts and components to meet the demands of our customers

Our ability to meet customer demands depends, in part, on our ability to obtain timely and adequate delivery of materials, parts and components from our suppliers and our internal manufacturing capacity. We may experience shortages that could adversely affect our operations. Although we work closely with our suppliers to avoid these types of shortages, there can be no assurances that we will not encounter these problems in the future. Furthermore, certain of our components are available only from a single source or limited sources. We may not be able to find alternate sources in a timely manner. A reduction or interruption in supplies, or a significant increase in the price of supplies could have a material adverse effect on our businesses.

We have incurred, and may in the future incur, restructuring and other charges, the amounts of which are difficult to predict accurately

We have recorded several charges for restructuring, impairment of assets, and the write-off of cost and equity based investments. It is possible we may record additional charges for restructuring or other asset impairments if additional actions become necessary to align costs to a reduced level of demand, or respond to increased competition, regulatory actions, or other factors impacting our businesses.

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If the markets for our products do not develop and expand as we anticipate, demand for our products may decline, which would negatively impact our results of operations and financial performance

The markets for our products are characterized by rapidly changing technologies, evolving industry government standards and frequent new product introductions. Our success is expected to depend, in substantial part, on the timely and successful introduction of new products, upgrades of current products to comply with emerging industry government standards, our ability to acquire technologies needed to remain competitive and our ability to address competing technologies and products. In addition, the following factors related to our products and the markets for them, if not achieved, could have an adverse impact on our results of operations and financial performance:

- . our ability to introduce leading products such as glass substrates for liquid crystal displays, optical fiber and cable and hardware and equipment, and environmental substrate products that can command competitive prices in the marketplace;
- . our ability to maintain or achieve a favorable sales mix of large generation sizes of liquid crystal display glass;
- . our ability to continue to develop new product lines to address our customers' diverse needs within the several market segments that we participate in, which requires a high level of innovation, as well as the accurate anticipation of technological and market trends;
- . our ability to develop new products in response to favorable government regulations and laws driving customer demand, particularly environmental substrate diesel filter products in the Environmental Technologies segment and Telecommunications segment products associated with fiber-to-the-premises;
- . continued strong demand for notebook computers;
- . the rate of substitution by end-users purchasing LCD monitors to replace cathode ray tube monitors;
- . the rate of growth in purchases of LCD televisions to replace other technologies;
- . fluctuations in inventory levels in the supply chain of LCD-based consumer electronics and fiber-to-the-premises products;
- . the ability to reallocate LCD glass to other customers in response to canceled orders; or
- . the rate of growth of the fiber-to-the-premises build-out in North America.

We face pricing pressures in each of our leading businesses that could adversely affect our results of operations and financial performance

We periodically face pricing pressures in each of our leading businesses as a result of intense competition, emerging new technologies, or over-capacity. While we will work toward reducing our costs to respond to the pricing pressures that may continue, we may not be able to achieve proportionate reductions in costs. As a result of overcapacity and the current economic and industry downturn in the Telecommunications segment, pricing pressures continued in 2005, particularly in our optical fiber and cable products. We anticipate pricing pressures will continue into 2006 and beyond. Increased pricing pressure may develop in our Display Technologies segment as our customers strive to reduce their costs and our competitors strive to expand production.

We have incurred, and may in the future incur, goodwill and other intangible asset impairment charges

At June 30, 2005, Corning had goodwill of \$277 million and other intangible

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assets of \$106 million. While we believe the estimates and judgments about future cash flows used in the goodwill impairment tests are reasonable, we cannot provide assurance that future impairment charges will not be required if the expected cash flow estimates as projected by management do not occur or change based on market conditions.

We may be limited in our ability to obtain additional capital on commercially reasonable terms

Although we believe existing cash, short-term investments and borrowing capacity, collectively, provide adequate resources to fund ongoing operating requirements, we may be required to seek additional financing to compete effectively in our markets. Our public debt ratings affect our ability to raise capital and the cost of such capital. Our ratings as of July 29, 2005 were BBB- from both Fitch, Inc. and Standard & Poor's, a division of the McGraw-Hill Companies, Inc. and Ba2 from Moody's Investors Service, a subsidiary of Moody's Corporation. Any downgrades may increase our borrowing costs and affect our ability to access the debt capital markets.

We are subject under our revolving credit facility to financial covenants that require us to maintain a ratio of total debt to capital and interest coverage ratio, as defined under the revolving credit facility. These covenants may limit our ability to borrow funds. Future losses or significant charges could materially affect these ratios, which may reduce the amounts we are able to borrow under our revolving credit facility.

If our products or materials purchased from our suppliers experience performance issues, our business will suffer

Our business depends on the production of excellent products of consistently high quality. To this end, our products, including materials purchased from our suppliers, are tested for quality both by us and our customers. Nevertheless, our products are highly complex, and our customers' testing procedures are limited to evaluating our products under likely and foreseeable failure scenarios. For various reasons (including, among others, the occurrence of performance problems unforeseeable in testing), our products and materials purchased from our suppliers may fail to perform as expected. Performance issues could result from faulty design or problems in manufacturing or testing. We have experienced such performance issues in the past and remain exposed to such performance issues. In some cases, product redesigns or additional capital equipment may be required to correct a defect. In addition, any significant or systemic product failure could result in customer relations problems and harm the future sales of our products.

We face intense competition in most of our businesses

We expect that we will face additional competition from existing competitors, low cost manufacturers and new entrants. Because some of the markets in which we compete have been historically characterized by rapid growth and are characterized by rapid technology changes, smaller niche and start-up companies, or companies with lower operating costs may become our principal competitors in the future. We must invest in research and development, expand our engineering, manufacturing and marketing capabilities, and continue to improve customer service and support in order to remain competitive. We cannot provide assurance that we will be able to maintain or improve our competitive position.

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We may experience difficulties in enforcing our intellectual property rights and we may be subject to claims of infringement of the intellectual property rights of others

We may encounter difficulties in protecting our intellectual property rights or obtaining rights to additional intellectual property necessary to permit us to continue or expand our businesses. We cannot assure you that the patents that we hold or may obtain will provide meaningful protection against our competitors or competitive technologies. Litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets and to determine the validity and scope of our proprietary rights. Litigation is inherently uncertain and the outcome is often unpredictable. Other companies hold patents on technologies used in our industries and are aggressively seeking to expand, enforce and license their patent portfolios.

The intellectual property rights of others could inhibit our ability to introduce new products. We are, and may in the future be, subject to claims of intellectual property infringement or misappropriation that may result in loss of revenue or require us to incur substantial costs. We cannot assure you as to the outcome of such claims.

Current or future litigation may harm our financial condition or results of operations

Pending, threatened or future litigation is subject to inherent uncertainties. Our financial condition or results of operations may be adversely affected by unfavorable outcomes, expenses and costs exceeding amounts estimated or insured. In particular, we have been named as a defendant in numerous lawsuits against PCC and several other defendants involving claims alleging personal injury from exposure to asbestos. As described in Legal Proceedings, our negotiations with the representatives of asbestos claimants have produced a tentative settlement, but certain cases may still be litigated and the final approval of the tentative settlement is subject to a number of uncertainties. Final approval of a global settlement through the PCC bankruptcy process may impact the results of operations for the period in which such costs, if any, are recognized. Total charges of \$731 million have been incurred through June 30, 2005; however, additional charges are possible due to the potential fluctuation in the price of our common stock, other adjustments in the proposed settlement, and other litigation factors.

We face risks related to our international operations and sales

We have customers and significant operations, including manufacturing and sales, located outside the U.S. We have large manufacturing operations for liquid crystal display glass substrates in the Asia-Pacific region, including equity investments in companies operating in South Korea that make liquid crystal display glass and in China that make telecommunications products, and several significant customers are located in this region. As a result of these and other international operations, we face a number of risks, including:

- . geographical concentration of our factories and operations;
- . major health concerns such as Severe Acute Respiratory Syndrome (SARS);
- . difficulty of effectively managing our diverse global operations;
- . change in regulatory requirements;
- . tariffs, duties and other trade barriers including anti-dumping duties;

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- . undeveloped legal systems; and
- . political and economic instability in foreign markets.

Any of these items could cause our sales and/or profitability to be significantly reduced.

We face risks through our equity method investments in companies that we do not control

Corning's net income includes significant equity in earnings of associated companies. For the six months ended June 30, 2005, we have recognized \$345 million of equity earnings, of which \$310 million came from our two largest investments; Dow Corning Corporation (which makes silicone products) and Samsung Corning Precision Glass Co., Ltd. (which makes liquid crystal display glass). Samsung Corning Precision is located in the Asia-Pacific region and, as such, is subject to those geographic risks referred to above. With 50% or lower ownership, we do not control such equity companies nor their management and operations. Performance of our equity investments may not continue at the same levels in the future. During 2003, we recognized charges associated with Samsung Corning Co., Ltd. (our 50% equity method investment that makes glass panels and funnels for conventional televisions), which recorded significant fixed asset impairment charges. As the conventional television market will be negatively impacted by strong growth in the LCD glass market, it is reasonably possible that Samsung Corning Co., Ltd. may incur additional restructuring or impairment charges or net operating losses in the future.

We face risks due to foreign currency fluctuations

Because we have significant customers and operations outside the U.S., fluctuations in foreign currencies, especially the Japanese yen and Euro, affect our sales and profit levels. Foreign exchange rates may make our products less competitive in countries where local currencies decline in value relative to the dollar. Sales in our Display Technologies segment are denominated in Japanese yen. For the six months ended June 30, 2005, the Display Technologies segment represented 34% of Corning's sales. Based on the expected sales growth of the Display Technologies segment, our exposure to currency fluctuations is increasing. Although we hedge significant transaction risk, we do not currently hedge translation risk.

If the financial condition of our customers declines, our credit risks could increase

We have experienced, and in the future may experience, losses as a result of our inability to collect our accounts receivable, as well as the loss of such customer's ongoing business. If our customers fail to meet their payment obligations to us, including deposits due under long-term purchase and supply agreements in our Display Technologies segment, we could experience reduced cash flows and losses in excess of amounts reserved. As of June 30, 2005, reserves for trade receivables totaled approximately \$27 million.

We may not have adequate insurance coverage for claims against us

We face the risk of loss resulting from, and adverse publicity associated with, product liability, securities, fiduciary liability, intellectual property, antitrust, contractual, warranty, fraud and other lawsuits, whether or not such claims are valid. In addition, our product liability, fiduciary, directors and officers, property and comprehensive general liability insurance may not be

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adequate to cover such claims or may not be available to the extent we expect. Our insurance costs have increased and may increase further. We may not be able to get adequate insurance coverage in the future at acceptable costs. A successful claim that exceeds or is not covered by our policies could require us to pay substantial sums. Some of the carriers in our excess insurance programs are in liquidation and may not be able to respond if we should have claims reaching into excess layers. The financial health of other insurers may deteriorate and these insurers may not be able to respond if we should have claims reaching into excess layers. In addition, we may not be able to insure against certain risks or obtain some types of insurance, such as terrorism or war insurance.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk Disclosures

There have been no material changes to our market risk exposures during the first six months of 2005. For a discussion of our exposure to market risk, refer to Item 7A, Quantitative and Qualitative Disclosures About Market Risks, contained in our 2004 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

(a) Restatement

As discussed in Note 2 to the consolidated financial statements contained herein, the Company has restated its consolidated financial statements for the years 2003 through 2005 and its quarterly consolidated financial statements for each of the quarterly periods in the years ended December 31, 2005 and 2004. Specifically, between March 31, 2003, and December 31, 2005, the following accounting errors occurred:

- .. Corning's asbestos settlement charges and the related liability for the asbestos settlement did not reflect the estimated fair value at initial recognition or subsequent changes in fair value, of certain components of the proposed settlement offer. As a result, asbestos settlement charges for the years 2005, 2004, and 2003 were understated by \$13 million, \$24 million, and \$117 million, respectively.
- .. Corning incorrectly suspended recording equity earnings of Pittsburgh Corning Europe, N.V. between March 31, 2003, and December 31, 2005. As a result, equity in earnings of affiliated companies for the years 2005, 2004, and 2003 was understated by \$13 million, \$11 million, and \$7 million, respectively.
- .. Accretion on the cash portion of the asbestos settlement offer was incorrectly recorded as interest expense resulting in both an overstatement of interest expense and an understatement of asbestos settlement expense for the years 2005, 2004, and 2003, by \$8 million, \$8 million, and \$5 million, respectively.

In the restated consolidated financial statements, the higher asbestos settlement charges are tax-effected in 2003 and the first half of 2004. As Corning provided a valuation allowance on most of its deferred tax assets in the third quarter of 2004, that quarter reflects an increase in the valuation allowance of \$55 million for the deferred tax assets related to the higher asbestos settlement charges.

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(b) Evaluation of disclosure controls and procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 (the Exchange Act) is accumulated and communicated to our management, including our principal executive and principal financial officers, or other persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

In the first quarter of 2006, management identified errors in the accounting of its Pittsburgh Corning Corporation (PCC) Asbestos Litigation liability and investments in affiliates and as noted above, has recorded the necessary adjustments in the unaudited interim consolidated financial statements for the quarter ended March 31, 2006 to correct these errors and has restated previously issued financial statements. In its Form 8-K filed on April 25, 2006, management indicated that the evaluation of internal control over financial reporting related to the above mentioned errors was still in process.

The evaluation has been completed, and management, under the direction of its principal executive and principal financial officers, has re-evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2005. Based upon this re-evaluation and as a result of the material weaknesses discussed below, the Company's principal executive and principal financial officers, have concluded that its disclosure controls and procedures were not effective as of June 30, 2005.

A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management determined that the following control deficiencies constitute material weaknesses in internal control over financial reporting at June 30, 2005:

- (i) The Company did not maintain effective controls over the valuation of its asbestos settlement charges and the valuation and reconciliation of the related liability pertaining to the 2003 Pittsburgh Corning Corporation Asbestos Litigation Bankruptcy Settlement. Specifically, the Company did not maintain effective controls to ensure that certain components of the liability, which may be settled by contributing the Company's equity interest of Pittsburgh Corning Europe, N.V. and assignment of rights to insurance proceeds, were appropriately recorded at fair value rather than book value as required by generally accepted accounting principles. This control deficiency resulted in the restatement of our annual consolidated financial statements for the years ended December 31, 2005, 2004, and 2003 and the quarterly consolidated financial statements for each of the three quarterly periods in the years ended December 31, 2005 and 2004. Additionally, this control deficiency could result in a misstatement of our asbestos settlement charges and related liability that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.
- (ii) The Company did not maintain effective controls over the completeness and accuracy of its equity investments. Specifically, the Company did not maintain effective controls to ensure that earnings of its equity investments were accurately and completely recorded. This control deficiency resulted in the restatement of our annual consolidated

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financial statements for the years ended December 31, 2005, 2004, and 2003 and the quarterly consolidated financial statements for each of the three quarterly periods in the years ended December 31, 2005 and 2004. Additionally, this control deficiency could result in a misstatement of our investments and equity in earnings of affiliated companies that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

Plan for Remediation of Material Weaknesses - We believe the steps described below, some of which have already been taken, will remediate the material weaknesses described above.

- .. We have enhanced the procedures and documentation associated with the reconciliation of our PCC Asbestos Litigation liability in order to ensure that all components are included in the evaluation process and are accounted for in accordance with generally accepted accounting principles.
- .. We have augmented the resources in our Accounting Services department that will enable us to have a stronger segregation of duties associated with the reconciliation of the PCC Asbestos Litigation liability account to ensure 1) the analysis and preparation of the reconciliation and 2) a detailed review of this work is done by separate individuals who have the requisite skill set and training.
- .. We are in the process of updating our key controls within the Investments in Affiliates cycle to specifically address 1) our ability to achieve full inclusion of all less than 100% owned entities in our accounting analysis of Investments in Affiliates and 2) to ensure proper monitoring and accounting for these entities.
- .. We are in the process of improving our investments in affiliates reconciliation procedures and documentation in order to ensure 1) the analysis and preparation of the reconciliation and 2) a detailed review of the reconciliation is done by separate individuals who have the requisite skill set and training.

As discussed above, since March 31, 2006, we are in the process of making improvements to our internal control over financial reporting that have a material effect, or are reasonably likely to materially affect, our internal control over financial reporting and anticipate the control deficiencies described above can be remediated on or before September 30, 2006.

(c) Changes in internal control over financial reporting

No changes in the Company's internal control over financial reporting occurred during the quarter ending June 30, 2005 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II - Other Information

ITEM 1. LEGAL PROCEEDINGS

Environmental Litigation. Corning has been named by the Environmental Protection Agency (the Agency) under the Superfund Act, or by state governments under similar state laws, as a potentially responsible party at 11 active hazardous waste sites. Under the Superfund Act, all parties who may have contributed any waste to a hazardous waste site, identified by such Agency, are jointly and severally liable for the cost of cleanup unless the Agency agrees otherwise. It

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is Corning's policy to accrue for its estimated liability related to Superfund sites and other environmental liabilities related to property owned by Corning based on expert analysis and continual monitoring by both internal and external consultants. Corning has accrued \$13 million for its estimated liability for environmental cleanup and litigation at June 30, 2005. Based upon the information developed to date, management believes that the accrued reserve is a reasonable estimate of the Company's liability and that the risk of an additional loss in an amount materially higher than that accrued is remote.

Schwinger and Stevens Toxins Lawsuits. In April 2002, Corning was named as a defendant in two actions, Schwinger and Stevens, filed in the U.S. District Court for the Eastern District of New York, which asserted various personal injury and property damage claims against a number of corporate defendants. These claims allegedly arise from the release of toxic substances from a Sylvania nuclear materials processing facility near Hicksville, New York. Amended complaints naming 205 plaintiffs and seeking damages in excess of \$3 billion were served in September 2002. The sole basis of liability against Corning was plaintiffs' claim that Corning was the successor to Sylvania-Corning Nuclear Corporation (Sylvania-Corning), a Delaware corporation formed in 1957 and dissolved in 1960. Management intends to vigorously contest all claims against Corning for the reason that Corning is not the successor to Sylvania-Corning. Management will also defend on the grounds that almost all of the wrongful death claims and personal injury claims are time-barred. At a status conference in December 2002, the Court decided to "administratively close" the Schwinger and Stevens cases and ordered plaintiffs' counsel to bring new amended complaints with "bellwether" plaintiffs. In these actions, known as Schwinger II and Astuto, the plaintiffs have not named Corning as a defendant. Although it appears that plaintiffs may proceed only against the other corporate defendants, the original Schwinger and Stevens cases remain pending, and no order has been entered dismissing Corning. Based upon the information developed to date, and recognizing that the outcome of litigation is uncertain, management believes that the likelihood of a materially adverse impact to Corning's financial statements is remote.

Dow Corning Bankruptcy. Corning and The Dow Chemical Company (Dow Chemical) each own 50% of the common stock of Dow Corning Corporation (Dow Corning), which was in reorganization proceedings under Chapter 11 of the U.S. Bankruptcy Code between May 1995 and June 2004. Dow Corning filed for bankruptcy protection to address pending and claimed liabilities arising from many thousand breast-implant product lawsuits. On June 1, 2004, Dow Corning emerged from Chapter 11 with a Plan of Reorganization (the Plan) which provided for the settlement or other resolution of implant claims and includes releases for Corning and Dow Chemical as shareholders in exchange for contributions to the Plan.

Under the terms of the Plan, Dow Corning has established and is funding a Settlement Trust and a Litigation Facility to provide a means for tort claimants to settle or litigate their claims. Dow Corning has paid approximately \$1.6 billion (inclusive of insurance) to the Settlement Trust and subject to a number of conditions, may pay up to an additional \$1.6 billion (\$710 million after-tax) over 16 years. Dow Corning has satisfied the claims of its commercial creditors, except that certain commercial creditors continue to pursue an appeal to the U.S. Court of Appeals of the Sixth Circuit seeking from Dow Corning an additional sum of approximately \$80 million for interest at default rates and enforcement costs. Corning believes the risk of loss to Dow Corning (net of amounts reserved) is remote.

In addition, Dow Corning has received a statutory notice of deficiency from the United States Internal Revenue Service asserting tax deficiencies totaling approximately \$65 million relating to its federal income tax returns for the 1995 and 1996 calendar years. This matter is pending before the U.S. District Court in Michigan. Dow Corning has also received a proposed adjustment from the

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IRS (approximately \$117 million) with respect to its federal income tax returns for the 1997, 1998 and 1999 calendar years. Dow Corning is vigorously contesting these deficiencies and proposed adjustments which it believes are excessive.

In 1995, Corning fully impaired its investment in Dow Corning upon its entry into bankruptcy proceedings and did not recognize net equity earnings from the second quarter of 1995 through the end of 2002. Corning began recognizing equity earnings in the first quarter of 2003 when management concluded that its emergence from bankruptcy protection was probable. Corning considers the difference between the carrying value of its investment in Dow Corning and its 50% share of Dow Corning's equity to be permanent. This difference is \$249 million. Subject to future rulings by the bankruptcy court and potential changes in estimated bankruptcy-related liabilities, it is possible that Dow Corning may record bankruptcy-related charges in the future. Corning received \$15 million in dividends from Dow Corning in the second quarter of 2005.

Federal Securities Cases. From December 2001 through April 2002, Corning and three of its officers and directors were named defendants in lawsuits alleging (a) violations of the U.S. securities laws in connection with Corning's November 2000 offering of 30 million shares of common stock and \$2.7 billion zero coupon convertible debentures, due November 2015 and (b) misleading disclosures and non-disclosures that allegedly inflated the price of Corning's common stock in the period from October 2000 through July 9, 2001. On April 12, 2004, the U.S. District Court of the Western District of New York entered a decision and order dismissing plaintiffs' complaint. That dismissal was affirmed by the U.S. Court of Appeals of the Second Circuit by an order entered on March 30, 2005. The dismissal of the complaint is now final.

Pittsburgh Corning Corporation. Corning and PPG Industries, Inc. (PPG) each own 50% of the capital stock of Pittsburgh Corning Corporation (PCC). Over a period of more than two decades, PCC and several other defendants have been named in numerous lawsuits involving claims alleging personal injury from exposure to asbestos. On April 16, 2000, PCC filed for Chapter 11 reorganization in the U.S. Bankruptcy Court for the Western District of Pennsylvania. As of the bankruptcy filing, PCC had in excess of 140,000 open claims and had insufficient remaining insurance and assets to deal with its alleged current and future liabilities. More than 100,000 additional claims have been filed with PCC after its bankruptcy filing. As a result of PCC's bankruptcy filing, Corning recorded an after-tax charge of \$36 million in 2001 to fully impair its investment in PCC and discontinued recognition of equity earnings. At the time PCC filed for bankruptcy protection, there were approximately 12,400 claims pending against Corning in state court lawsuits alleging various theories of liability based on exposure to PCC's asbestos products and typically requesting monetary damages in excess of one million dollars per claim. Corning has defended those claims on the basis of the separate corporate status of PCC and the absence of any facts supporting claims of direct liability arising from PCC's asbestos products. Corning is also currently named in approximately 11,500 other cases (approximately 44,500 claims) alleging injuries from asbestos and similar amounts of monetary damages per claim. Those cases have been covered by insurance without material impact to Corning to date. Asbestos litigation is inherently difficult, and past trends in resolving these claims may not be indicators of future outcomes.

In the bankruptcy court in April 2000, PCC obtained a preliminary injunction against the prosecution of asbestos actions arising from PCC's products against its two shareholders to afford the parties a period of time in which to negotiate a plan of reorganization for PCC (the PCC Plan).

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On May 14, 2002, PPG announced that it had agreed with certain of its insurance carriers and representatives of current and future asbestos claimants on the terms of a settlement arrangement applicable to claims arising from PCC's products.

On March 28, 2003, Corning announced that it had reached agreement with the representatives of asbestos claimants for the settlement of all current and future asbestos claims against us and Pittsburgh Corning Corporation (PCC), which might arise from PCC products or operations. The proposed settlement, if the plan is approved and becomes effective, will require Corning to relinquish its equity interest in PCC, contribute its equity interest in Pittsburgh Corning Europe N.V. (PCE), a Belgian corporation, and contribute 25 million shares of Corning common stock. Corning also agreed to make cash payments with a value of \$131 million, in March 2003, over six years from the effective date of the settlement. In addition, Corning will assign policy rights or proceeds under primary insurance from 1962 through 1984, as well as rights to proceeds under certain excess insurance, most of which falls within the period from 1962 through 1973. In return for these contributions, Corning expects to receive a release and an injunction channeling asbestos claims against it into a settlement trust under the PCC Plan.

Corning recorded an initial charge of \$392 million in the period ending March 31, 2003 to reflect the settlement terms. However, the asbestos liability requires adjustment to fair value based upon movements in Corning's common stock price prior to the contribution of the shares to the trust and changes in the estimated fair value of the other components of the settlement offer. Beginning with the first quarter of 2003 and through June 30, 2005, Corning recorded total net charges of \$731 million to reflect the initial settlement, the movement in Corning's common stock price since March 31, 2003, and changes in the estimated fair value of the other components of the settlement offer.

Two of Corning's primary insurers and several excess insurers have commenced litigation for a declaration of the rights and obligations of the parties under insurance policies, including rights that may be affected by the settlement arrangement described above. Corning is vigorously contesting these cases. Management is unable to predict the outcome of this insurance litigation.

The PCC Plan received a favorable vote from creditors in March 2004. Hearings to consider objections to the Plan were held in the Bankruptcy Court in May 2004. The parties filed post-hearing briefs and made final oral arguments to the Bankruptcy Court in November 2004. The Bankruptcy Court allowed an additional round of briefing to address current case law developments and heard additional oral arguments on March 16, 2005. In mid-April 2005, the proponents of the PCC Plan requested that the court rule on the pending objections. If the Bankruptcy Court does not approve the PCC Plan in its current form, changes to the Plan are probable as it is likely that the Court will allow the proponents time to propose amendments. The outcome of these proceedings is uncertain, and confirmation of the current Plan or any amended Plan is subject to a number of contingencies. However, apart from the quarterly mark-to-market adjustment in the value of the 25 million shares of Corning stock, management believes that the likelihood of a material adverse impact to Corning's financial statements is remote.

Astrium. In December of 2000, Astrium, SAS and Astrium, Ltd. filed a complaint for negligence in the U.S. District Court for the Central District of California against TRW, Inc., Pilkington Optronics Inc., Corning NetOptix, Inc. (NetOptix),

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OFC Corporation and Optical Filter Corporation claiming damages in excess of \$150 million. The complaint alleges that certain cover glasses for solar arrays used to generate electricity from solar energy on satellites sold by Astrium's corporate successor were negligently coated by NetOptix or its subsidiaries (prior to Corning's acquisition of NetOptix) in such a way that the amount of electricity the satellite can produce and their effective life were materially reduced. NetOptix has denied that the coatings produced by NetOptix or its subsidiaries caused the damage alleged in the complaint, or that it is legally liable for any damages that Astrium may have experienced. In April 2002, the Court granted motions for summary judgment by NetOptix and other defendants to dismiss the negligence claims, but permitted plaintiffs to add fraud and negligent misrepresentation claims against all defendants and a breach of warranty claim against NetOptix and its subsidiaries. In October 2002, the Court again granted defendants' motions for summary judgment and dismissed the negligent misrepresentation and breach of warranty claims. The intentional fraud claims were dismissed against all non-settling defendants on February 25, 2003. On March 19, 2003, Astrium appealed all of the Court's rulings regarding the various summary judgment motions to the Ninth Circuit Court of Appeals. The period of briefing the appeal was extended, and oral argument has not been scheduled. Recognizing that the outcome of litigation is uncertain, management believes that the likelihood of a materially adverse impact to Corning's financial statements is remote.

Furukawa Electric Company. On February 3, 2003, The Furukawa Electric Company (Furukawa) filed suit in the Tokyo District Court in Japan against Corning Cable Systems International Corporation (CCS International) alleging infringement of Furukawa's Japanese Patent No. 2,023,966 which relates to separable fiber ribbon units used in optical cable. Furukawa's complaint requests slightly over 6 billion Japanese yen in damages (approximately \$56 million) and an injunction against further sales in Japan of these fiber ribbon units. CCS International has denied the allegation of infringement, asserted that the patent is invalid, and is defending vigorously against this lawsuit. On October 29, 2004, the Tokyo District Court issued its ruling in favor of CCS International on both non-infringement and patent invalidity. Furukawa has filed an appeal from this ruling to the Tokyo Court of Appeals. Management believes that the likelihood of a materially adverse impact to Corning's financial statements is remote.

PicVue Electronics Ltd., PicVue OptoElectronics International, Inc., and Eglasstrek GmbH. In June 2002, Corning brought an action in the U.S. District Court for the Western District of New York to restrain the use of its trade secrets relating to certain machinery used for liquid crystal display glass melting. In July 2003, the District Court granted a preliminary injunction in favor of Corning, subject to Corning's posting a bond. PicVue, a Taiwanese company, filed a counterclaim alleging violations of the antitrust laws and appealed from the granting of the preliminary injunction. The U.S. Court of Appeals affirmed and remanded the case to the District Court to clarify its injunction and to determine the amount of the bond. In early July 2005, Corning reached a settlement with the two PicVue entities resolving Corning's trade secret claim and dismissing PicVue's counterclaim, through an agreed judgment expected to be entered by the District Court within 30 days. Corning's claims against Eglasstrek remain for further proceedings in the District Court, although the parties have initiated settlement discussions.

Tyco Electronics Corporation and Tyco Technology Resources, Inc. On August 13, 2003, CCS Holdings Inc. (CCS), a Corning subsidiary, filed an action in the U.S. District Court for the Middle District of North Carolina against Tyco Electronics Corporation and Tyco Technology Resources, Inc. (Tyco), asking the

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court to declare a Tyco patent invalid, unenforceable and not infringed by CCS. The patent generally relates to a type of connector for optical fiber cables. Tyco filed an answer and counterclaims alleging patent infringement by CCS of the same patent and is seeking unspecified monetary damages and an injunction. The Court has entered a stipulated discovery plan and discovery is ongoing. The Court also ordered that the parties conduct mediation before October 1, 2005. Recognizing that the outcome of litigation is uncertain, management believes that the risk of a material impact on Corning's financial statements is remote.

Grand Jury Investigation of Conventional Cathode Ray Television Glass Business. In August 2003, Corning Asahi Video Products Company (CAV) was served with a federal grand jury document subpoena related to pricing, bidding and customer practices involving conventional cathode ray television glass picture tube components. A number of employees or former employees have received a related subpoena. CAV is a general partnership, 51% owned by Corning and 49% owned by Asahi Glass America, Inc. CAV's only manufacturing facility in State College, Pennsylvania closed in the first half of 2003 due to declining sales. CAV is cooperating with the government investigation. Management is not able to estimate the likelihood that any charges will be filed as a result of the investigation.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

This table provides information about our purchases of our common stock during the fiscal second quarter of 2005:

Issuer Purchases of Equity Securities (a)

Period	Total Number of Shares Purchased (b)	Average Price Paid per Share (b)	Total Number of Shares Purchased a Part of Publicly Announced Plan (a)
April 1-30, 2005	55,011	\$13.45	0
May 1-31, 2005	235,792	\$14.70	0
June 1-30, 2005	66,802	\$16.25	0
Total	357,605	\$14.80	0

(a) During the period ended June 30, 2005, we did not have a publicly announced program for repurchase of shares of our common stock and did not repurchase our common stock in open-market transactions outside of such a program.

(b) This column reflects the following transactions during the fiscal second quarter of 2005: (i) the deemed surrender to us of 336,973 shares of common stock to pay the exercise price and to satisfy tax withholding obligations in connection with the exercise of employee stock options, and (ii) the surrender to us of 20,632 shares of common stock to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) - (c) Our annual meeting of shareholders was held on April 28, 2005. At that meeting, shareholders elected John Seely Brown, Gordon Gund, John M. Hennessy and H. Onno Ruding as directors for terms expiring at our annual meeting of shareholders in 2008. In addition, shareholders voted to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for fiscal year 2005 and also approved the 2005 Employee Equity Participation Program. Those elected and the results of voting are as follows:

Nomination and Election of Directors

Name	Votes For	Votes Withheld
John Seely Brown	1,149,786,336	133,256,051
Gordon Gund	1,138,772,764	144,269,623
John M. Hennessy	1,231,377,503	51,664,884
H. Onno Ruding	1,242,792,837	40,249,550

James B. Flaws, James R. Houghton, James J. O'Connor, Deborah D. Rieman and Peter F. Volanakis continued as directors for terms expiring at the annual meeting of shareholders in 2006 and Jeremy R. Knowles, Eugene C. Sit, William D. Smithburg, Hansel E. Tookes II and Wendell P. Weeks continued as directors for terms expiring at the annual meeting of shareholders in 2007.

	Votes For	Votes Against	Abstain	Broker Non-Votes
Approve 2005 Employee Equity Participation Program	724,875,246	268,780,577	10,985,200	278,401,364

	Votes For	Votes Against	Abstain
Ratify appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for fiscal year ending December 31, 2005	1,251,194,649	23,100,931	8,746,807

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Name
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- 12 Computation of Ratio of Earnings to Fixed Charges.
- 31.1 Certification Pursuant to Rule 13a-15(e) and 15d-15(e), As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification Pursuant to Rule 13a-15(e) and 15d-15(e), As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CORNING INCORPORATED
(Registrant)

May 9, 2006

Date

/s/ JAMES B. FLAWS

James B. Flaws
Vice Chairman and Chief Financial Officer
(Principal Financial Officer)

May 9, 2006

Date

/s/ KATHERINE A. ASBECK

Katherine A. Asbeck
Senior Vice President and Controller
(Principal Accounting Officer)

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EXHIBIT INDEX

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32	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 12

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
 (In millions, except ratios)

	Six months ended June 30, 2005 (Restated)
Income before income taxes	\$ 139
Adjustments:	
Distributed income of equity investees	212
Fixed charges net of capitalized interest	74

Income before taxes and fixed charges, as adjusted	\$ 425 =====
Fixed charges:	
Interest expense (a)	\$ 61
Portion of rent expense which represents an appropriate interest factor (b)	13
Capitalized interest	11

Total fixed charges	85
Capitalized interest	(11)

Total fixed charges, net of capitalized interest	\$ 74 =====
Ratio of earnings to fixed charges	5.0x =====

(a) Interest expense includes amortization expense for capitalized interest and

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debt costs.

- (b) One-third of net rent expense is the portion deemed representative of the interest factor.

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302(A) OF
THE SARBANES-OXLEY ACT OF 2002

I, Wendell P. Weeks, certify that:

1. I have reviewed this amendment to quarterly report on Form 10-Q/A of Corning Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to

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record, process, summarize and report financial information; and

- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2006

/s/ Wendell P. Weeks

Wendell P. Weeks
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302(A) OF
THE SARBANES-OXLEY ACT OF 2002

I, James B. Flaws, certify that:

1. I have reviewed this amendment to quarterly report on Form 10-Q/A of Corning Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in

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the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2006

/s/ James B. Flaws

James B. Flaws
Vice Chairman and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

We, Wendell P. Weeks, President and Chief Executive Officer, and James B. Flaws, Vice Chairman and Chief Financial Officer, of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the amendment to Quarterly Report of Corning Incorporated on Form 10-Q/A for the three-month period ended June 30, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) that information contained in such Form 10-Q/A fairly presents in all material respects the financial condition and results of operations of Corning Incorporated.

Date: May 9, 2006

/s/ Wendell P. Weeks

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Wendell P. Weeks
President and Chief Executive Officer

/s/ James B. Flaws

James B. Flaws
Vice Chairman and Chief Financial Officer